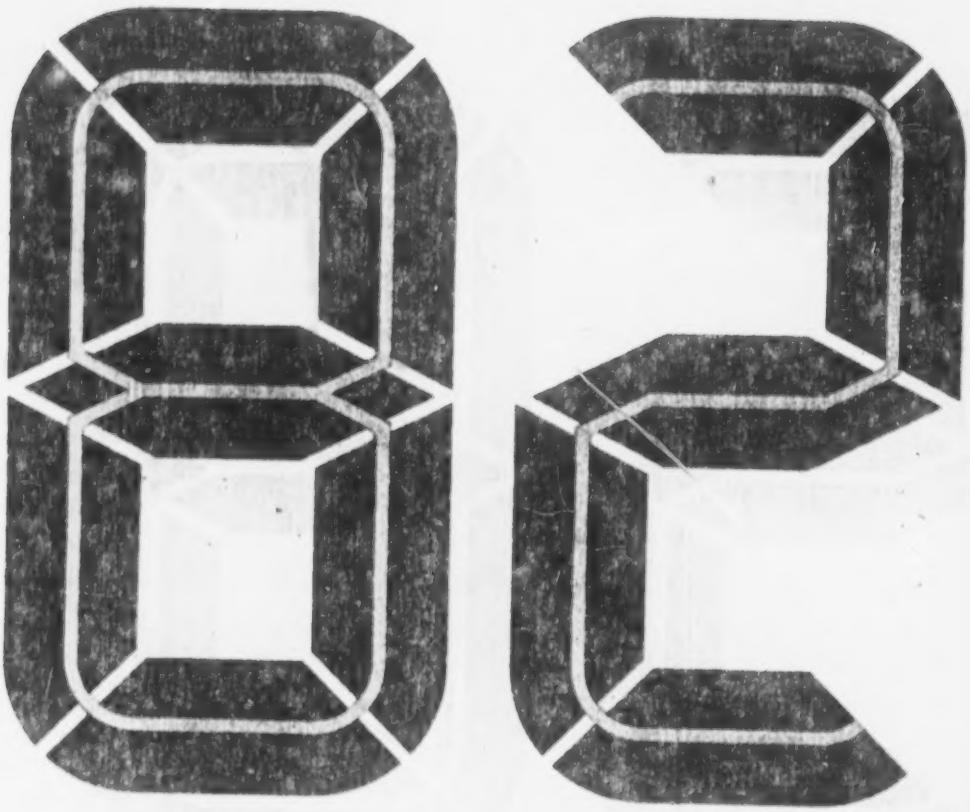
A 7475-2 U
10/82

NCFA



NATIONAL
CONSUMER
FINANCE
ASSOCIATION

FINANCE FACTS YEARBOOK

1982
Finance Facts
Yearbook

A Factbook About
Consumers and the Consumer
Finance Business

Published by
National Consumer
Finance Association
1101 14th Street, N.W.
Washington, D.C. 20005

Prepared by
Dale D. Griffa
Research Assistant

Thomas A. Durkin
Director of Research

Single Copy
NCFA Members—$8.50
Non-members—$10.00

Library of Congress Card Catalog Number 61-14409

FOREWORD

Finance Facts Yearbook is an annual publication of the National Consumer Finance Association which also publishes the monthly "Finance Facts." These and other publications are offered at a nominal charge as a public service by the National Consumer Finance Association, whose members number 650 companies engaged in financing consumers through over 16,000 offices in the United States and Puerto Rico. This financing is done by finance companies or industrial banking companies, through direct cash installment loans to families or individuals, or through the purchase of installment sales paper.

NCFA's membership is comprised of organizations commonly referred to as consumer finance companies, sales finance companies, industrial banks and industrial loan companies. Some members have insurance and retail subsidiaries, some offer commercial financing, some have manufacturing subsidiaries, some operate in Canada and some in Europe, Australia and Asia. Several members of NCFA are subsidiaries of highly diversified parent corporations, while others are subsidiaries of manufacturing companies, others of insurance companies, and others of bank holding companies.

The first six chapters of the yearbook provide a convenient reference source of current information about significant aspects of the consumer sector. The human factors are briefly outlined: the size and make-up of the population as the underlying determinant of the types of goods and services needed; and the size and make-up of the adult population as the potential labor force to supply those goods and services. A review of consumer income, expenditures, saving and investment is followed by a description of consumer credit and the institutions involved.

Chapter 7, "The Consumer Finance Industry," provides a description of the business of finance companies and industrial banks, their markets, their sources of funds and other distinguishing characteristics of these financial institutions. Included is a brief account of the legal and regulatory framework within which these companies operate as well as the latest statistical information relative to finance company operations. The final section of Chapter 7, "DIDMCA" relates the implications for finance companies of the implementation of provisions of the Depository Institutions Deregulation and Monetary Control Act of 1980.

Finally, the "List of References" may be helpful to those who wish to obtain more information on the consumer finance industry.

Thomas A. Durkin
Director of Research and Education
National Consumer Finance Association

TABLE OF CONTENTS

Page

FOREWORD 2

LIST OF TABLES 4

LIST OF CHARTS 6

CHAPTER 1 The Population 7

CHAPTER 2 In School and on the Job 13

CHAPTER 3 Consumers and Their Income 21

CHAPTER 4 Consumers—Their Spending and Capital Formation 27

CHAPTER 5 Consumers as Financers 35

CHAPTER 6 Consumer Credit 41

CHAPTER 7 The Consumer Finance Industry 51
- Definition 51
- Size and Ownership 51
- Long-Term Trends 52
- Types of Consumer Finance Business 52
- Financing Automobiles and Other Goods 54
- Personal Cash Loans 54
- Size and Number of Loans and Contracts 55
- Rates of Charge 55
- Types of Rate Quotation 56
- Terms of Finance Contracts 58
- Consumer Borrowers 58
- Assets of Finance Companies 58
- Sources of Funds of Consumer Finance Companies 60
- Income and Expenses of Consumer Finance Companies 60
- Cost of Funds and Rate of Return 62
- Regulation of Finance Companies 62
- Industrial Banking Companies 64
- Uniform Consumer Credit Code 67
- Consumer Credit Protection Laws 70
- Report of the National Commission on Consumer Finance 71
- Electronic Fund Transfer Systems 72
- DIDMCA 72

1982 AND BEYOND 73

LIST OF REFERENCES 75

LIST OF TABLES

		Page
1.	Population and Number of Households, July 1 of Selected Years, 1975-1995	8
2.	Population Including Armed Forces Abroad by Age and Sex, July 1, of Selected Years, 1972-2000	10
3.	The Labor Force and Those Not in the Labor Force, Selected Years, 1975-1990	14
4.	Estimated School Enrollment, Selected Years, 1975-1980	15
5.	Employed Persons by Occupation Groups, Selected Years, 1975-1981	18
6.	Sources of Personal Income, Selected Years, 1975-1981	21
7.	Disposition of Personal Income, Selected Years, 1975-1981	22
8.	Selected Characteristics of Households—Number, Mean Income and Aggregate Income of Each Group, 1980	24
9.	Families and Unrelated Individuals by Total Money Income in 1980	25
10.	Gross National Product, Selected Years, 1975-1981	27
11.	Capital Formation, 1977-1981	33
12.	Financing Government by Individuals, Selected Years, 1975-1981	36
13.	Savings and Investment by Households, Selected Years, 1975-1981	37
14.	Credit Market Debt Owed by Sector, and Other Selected Claims, Selected Years, 1975-1981	38
15.	The Consumer Balance Sheet, Selected Years, 1975-1981	39
16.	Consumer Asset to Debt Ratios, End of Period, Selected Years, 1975-1981	39
17.	Consumer Installment Credit Outstanding, Extensions, Liquidations, and Net Change, by Holder, Selected Years, 1975-1981	43
18.	Consumer Installment Credit Outstanding at Year End and Net Change During Year, By Type, By Holder, Selected Years, 1975-1981	44
19.	Consumer Installment Credit, By Type and Holder, 1981	45
20.	Annual Installment Debt Payments to Previous Year's Family Income	48
21.	Distribution of Families Reporting Installment Debt and Use of Credit Cards, 1970 and 1977	49
22.	Loans Secured by Real Estate Other Than First Mortgages—Nonfarm Homeowning Families, 1977	50
23.	Receivables Outstanding at Finance Companies, By Type, Selected Years, 1975-1981	52
24.	Consumer Installment Credit at Finance Companies, Selected Years, 1975-1981	53
25.	Finance Rates, Maturities, and Average Amount Financed by Finance Companies, Selected Years, 1975-1981	57
26.	Percent Distribution of Number of Loans Extended by Security, Selected Years, 1971-1980	59

Page

27. Distribution of the Number of Loans Extended, By Purpose, Selected Years, 1971-1979 60
28. Percent Distribution of Borrowers From Finance Companies and All Households, By Income and Age Groups, 1980 61
29. Percent Distribution of the Number of Loans Made By Borrower Characteristics, Selected Years, 1975-1980 62
30. Assets of Companies Responding to NCFA Questionnaire, December 31, 1980 63
31. Percentage Distribution of Liabilities, Capital and Surplus for Consumer Finance Companies Responding to NCFA Questionnaire, December 31, 1976-1980 63
32. Sources and Uses of Gross Income in 1980 of Companies Responding to NCFA Questionnaire 64
33. Gross Income of Consumer Finance Companies—Sources and Uses, Selected Years, 1975-1980 65
34. Estimated Overall Cost of Borrowing in 1980 and 1979, Finance Companies by Size of Company 65
35. Estimated Return on Equity in 1980 and 1979, Finance Companies by Size of Company 66
36. Relation of Income to Outstandings, Assets and Equity, Consumer Finance Companies, Selected Years, 1975-1980 66
37. Number of Industrial Bank Offices Operated, Year End 1975, Year End 1979 and Year End 1980 68
38. Assets of Industrial Banking Companies, By States, Year End 1980 69
39. Liabilities and Net Worth of Industrial Banks, By States, Year End 1980 70

LIST OF CHARTS

		Page
1.	The U.S. Population, December 1981	7
2.	Vital Statistics Rates: 1930-1981	9
3.	Changes in Population, by Age Groups, 1975-1981, 1981 to 1990, 1990 to 2000	11
4.	Changes in Resident Population by Regions, 1970-1980	12
5.	Young People 16-21 Years of Age in School and in the Labor Force, 1970 and 1981	15
6.	Civilian Labor Force Participation Rates by Sex and Age, 1965-1981	16
7.	Labor Force Participation Rates of Married Women by Presence and Age of Children, March 1865 to March 1980	17
8.	Nonagricultural Rates by Age and Sex, 1960-1981	17
9.	Unemployment Rates by Age and Sex, 1960-1981	18
10.	Help-Wanted Index and the Unemployment Rate, 1964-1981	19
11.	Changes in the Labor Force by Age Groups, 1975-1981, 1981-1990	20
12.	Rates of Change in Disposable and Per Capita Personal Income, 1979-1980 and 1980-1981	22
13.	Money Income of Households, 1980	23
14.	The Personal Income and Personal Outlay Dollar in 1981	28
15.	Annual Budget for Three Living Standards, Urban U.S., Autumn 1981, Family of Four—Husband, Wife, Boy 13, and Girl 8	29
16.	Inflation and the Family Budget	30
17.	Consumer Confidence and Buying Plans	31
18.	Indexes of Consumer Financial Behavior	32
19.	Consumer Balance Sheet, December 31, 1981	40
20.	Types of Consumer Indebtedness Outstanding, Year End 1981	42
21.	Installment Credit for Consumer Financing, 1970-1981	46
22.	Ratio of Consumer Installment Credit to Disposable Personal Income, 1970-1981	47
23.	Consumer Installment Credit Outstanding at Finance Companies at Year End 1972 and 1981	54
24.	Average Loan Size, Finance Companies, Selected Years, 1975-1980	56
25.	Amount Financed on Automobiles by Finance Companies, Selected Years, 1975-1981	56
26.	Interest Rates, 1973-1981	75

CHAPTER 1

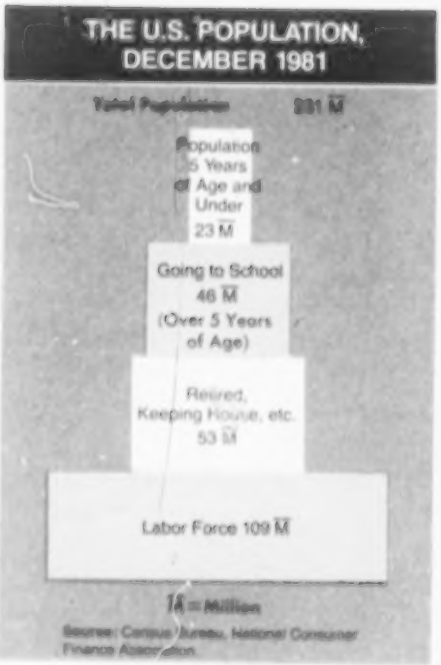
THE POPULATION

The size and composition of the population are basic to both the extent of consumer wants and to the types of goods and services required to satisfy them. Demographic characteristics, as well as geographic location, education, and mobility of the population, are important factors in the economic processes of saving, investment, and spending and to the types of goods produced. The proportion of the population capable of producing goods and services—the potential labor force—places a limit on the availability and variety of goods and services made available by an economy.

Long-term growth has been a reality in the American economy as the result of enterprising business leadership, a skilled labor force, and improved technology within a stable political system. To provide the goods and services to satisfy consumer wants in the U.S., well over half of the population serves as producers, either in the labor force or in the home. To secure the basis for a future viable economy, over one-fifth of the U.S. population are in the process of education and training for the world of work.

The population of the U.S. including armed forces overseas was estimated at 231 million in December 1981, about 109 million (47%) were in the labor force. About 53 million (23%) were housekeepers, retired, or "others" 16 years of age and over who were not part of the paid labor force. About 46 million, or 20%, of the population were going to school to prepare for future production activity. Many of these were also working, at least part-time. Some 23 million (10%) were 5 years of age or under (Chart 1).

CHART 1


THE U.S. POPULATION, DECEMBER 1981
Total Population 231 M
Population 5 Years of Age and Under 23 M
Going to School 46 M (Over 5 Years of Age)
Retired, Keeping House, etc. 53 M
Labor Force 109 M
16 = Million
Source: Census Bureau, National Consumer Finance Association

Demographic characteristics of the population are important in determining current patterns of spending, saving, and production, and projections permit advance planning for more efficient use of resources by individuals, business and

government. The following sections provide data on some of the more relevant demographic determinants of economic activity.

Population Growth and Family Formation

The population of the United States including armed forces overseas was estimated in mid-1981 to be 229.8 million. By 1990, it is expected to increase by 5.9% and stand at approximately 243.5 million. The projection suggests an annual growth rate of approximately 0.6% (Table 1). Average annual rates of population growth have fallen substantially from 1.71% in the 1950's to 1.26% in the 1960's to 0.82% in the 1970's. Growth rate changes reflect, for the most part, changes in the birth rate and to some extent changes in immigration policy.

As the birth rate declined after 1957, the growth rate of the population fell to a low of 1% or less starting in 1968. Preliminary data for 1981 suggest a natural increase of 0.7% and an increase of 0.2% from immigration. The number of births in 1981 was 3.6 million. This is in contrast to an average of 4.16 million each year during the first half of the 1960's. The death rate has remained fairly stable over the past five years and stood at 8.7 per thousand in 1981.

Immigration contributed an increased proportion of U.S. population growth after 1965 when the Immigration and Nationality Act was amended to raise the overall quota, eliminate the national origins feature, and add a special quota for

TABLE 1

POPULATION AND NUMBER OF HOUSEHOLDS
JULY 1 OF SELECTED YEARS, 1975-1995*

(In millions)

	1975	1978	1979	1980	1981	Projected** 1990	1995
Population	213.6	218.7	220.6	228.7	229.8	243.5	252.6
Households	71.1	76.0	77.3	80.8	82.4	96.7	103.9
Husband-wife	47.0	47.4	47.6	49.1	49.3	54.7	56.7
Other	24.2	28.7	29.7	31.7	33.1	42.0	47.2
Male Householder	7.4	9.4	9.7	10.5	11.2	14.9	17.1
Female Householder ...	16.8	19.3	20.0	21.1	21.9	27.1	30.1
Living Alone***	(13.9)	(16.7)	(17.2)	(18.3)	(18.9)	na	na

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* Population and projected households as of July 1 of each year; estimates of households for years 1975-1981 as of March. All estimates are based on 1970 benchmark and subsequent sample surveys.

** Population growth conforms to the Census Bureau Series II projection which is the middle estimate of three projections. Projections of number of households are the Census Bureau Series B based upon trends in marital status and householder proportions over the 1964-1978 period. A household consists of a person or group of persons who occupy a house, an apartment or other group of rooms, or a room that constitutes a housing unit.

*** Of the "other" households, those that constitute one-person households.

Latin America. The addition to population from this factor started dropping off in 1970, and except for 1975 when the largest group of Vietnamese refugees entered the United States, has added less than 0.2% per year recently. However, because of the uncertainty about the number of undocumented or illegal aliens in the United States, this group is not included in the estimates of net civilian immigration.

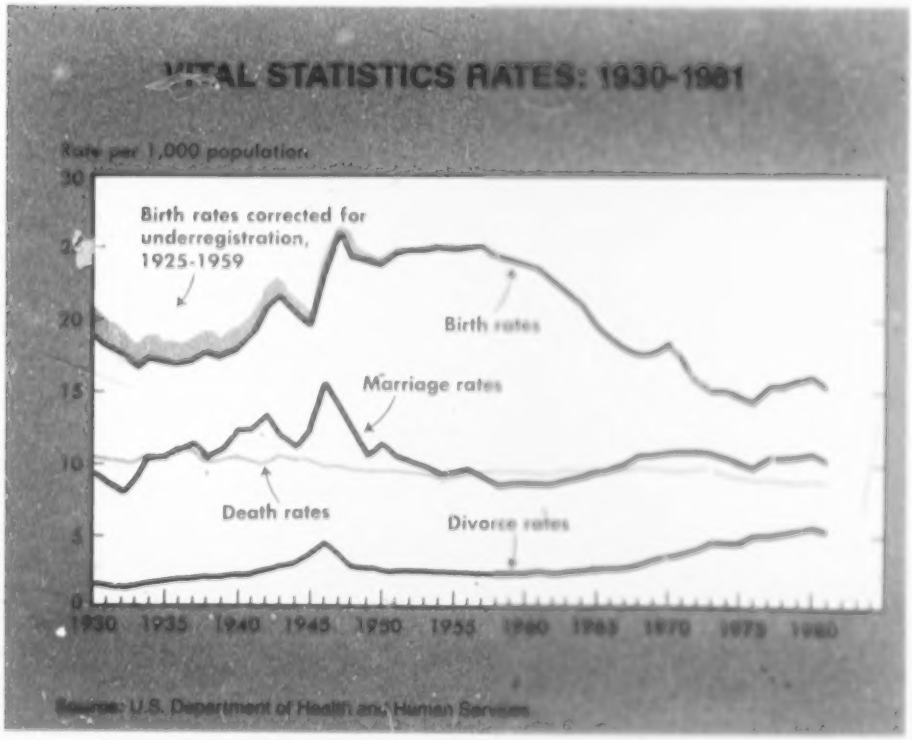
The number of marriages increased steadily from the low of 1.45 million in 1958, until it reached 2.28 million in 1973. However, there was a decline to 2.13 million in 1976 with a gradual rise to 2.4 million in 1981. Marriage rates per 1000 population increased slightly in 1980 and 1981 with increased population at marriageable ages. The divorce rate which increased rapidly through 1971 continued increasing more slowly and stood at 5.3 per thousand in 1981 (Chart 2).

Households

Trends in family formation and in the number of households have special economic significance because the primary unit of consumption for many goods and services is not the individual but the family or the household. This is especially true for housing and consumer durables such as automobiles, home furnishings and appliances. If, as is expected, present trends in family and household formation continue and the long-term trend in economic activity continues upward, subject only to short pauses during the next several years, it is anticipated that the number of households will increase from 82.4 million in 1981 to about 88.6 million in 1985.

Households increased by 11.2 million between 1975 and 1981. About 44% of this increase consisted of persons living alone compared to an increase of 21% for husband-wife households. The remaining

CHART 2



35% of the increase consisted of households of two or more persons (other than husband-wife households). The increase in other than husband-wife households reflects the increased divorce rate as well as the large number of younger persons who leave their parental home to set up nonfamily households, and the increasing number of older persons who continue to maintain their own houses or apartments while living apart from relatives.

The average population per household in March 1981 was 2.73 persons, having dropped off each year since 1964 when

TABLE 2

POPULATION INCLUDING ARMED FORCES ABROAD
BY AGE AND SEX
JULY 1 OF SELECTED YEARS: 1972-2000

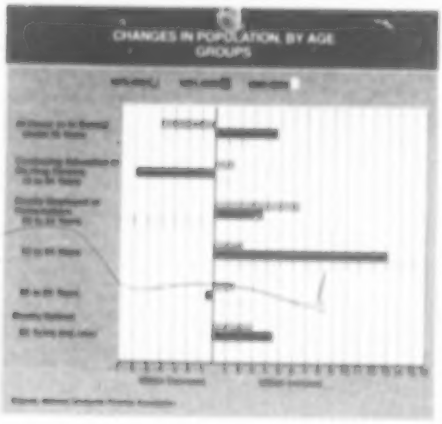
(In millions)

				Projected*			
	1975	1978	1979	1980	1981	1990	2000
Years of Age							
Both Sexes							
Under 5	15.9	15.4	15.6	16.0	16.6	19.4	17.9
5 to 15	42.0	39.6	38.6	37.8	37.1	39.0	43.2
16 to 24	36.0	37.4	37.6	37.6	37.4	31.5	32.6
25 to 34	30.9	34.0	35.0	36.2	37.5	41.1	34.5
35 to 54	46.6	47.6	48.1	48.4	48.8	61.9	77.2
55 to 64	19.8	20.7	21.0	21.2	21.4	20.8	23.3
65 and over	22.4	24.1	24.7	24.9	25.4	29.8	31.8
Total	213.6	218.7	220.6	222.2	224.2	243.5	260.4
By sex							
Under 16							
Male	29.5	28.1	27.7	27.5	27.5	29.9	31.3
Female	28.3	26.9	26.6	26.3	26.3	28.5	29.8
16 to 24							
Male	18.2	18.9	19.0	19.0	18.9	15.9	16.5
Female	17.8	18.5	18.6	18.6	18.5	15.6	16.0
25 to 54							
Male	38.0	40.0	40.8	41.6	42.4	50.7	54.9
Female	39.5	41.5	42.3	43.0	43.8	52.3	56.8
55 to 64							
Male	9.3	9.8	9.9	10.0	10.1	10.0	11.1
Female	10.4	10.9	11.0	11.2	11.3	10.8	12.1
65 and over							
Male	9.2	9.8	10.0	10.1	10.3	12.0	12.7
Female	13.2	14.3	14.6	14.8	15.1	17.8	19.1
Total							
Male	104.2	106.6	107.5	108.3	109.2	118.5	126.6
Female	109.3	112.1	113.1	113.9	115.0	125.0	133.8

Source: Bureau of the Census
Note: Parts may not add to totals due to rounding.
* From Census Bureau Series II, see Table 1 for explanation.

the average size was 3.33 persons. The change resulted from the falling birth rate through most of the 1960's and the 1970's (which is reflected in a decrease in average number of children under 18 years of age per household from 1.23 in 1964 to 0.76 in 1981) and the increasing proportion of adults who are living alone. Average population per family of related persons dropped from 3.70 in 1964 to 3.27 in 1981.

CHART 3



Age Groups

Changes in the number of persons in various age groups of the population impose changing requirements on the economy, especially concerning the demand for different types of consumer goods, the need for an expanding job market, and requirements for education facilities.

Table 2 shows the number in each age group and the distribution by sex as estimated for selected years 1975 to 1979, and projected by the Census Bureau for 1980, 1981, 1990, and 2000. While the total number in each group is of interest for present-day marketers and others serving the consumer, the rate at which the size of these groups is changing is of greater concern for planning by business and government. The changes in the numbers in the various age groups from 1975 to 1981 and projected for 1981 to 1990 and 1990 to 2000 are shown in Chart 3.

Young people at home or in school—those under 16 years of age—numbered 4.2 million less in 1981 than in 1975 but are expected to increase by 4.7 million between 1981 and 1990 and by 2.6 million between 1990 and 2000. This projection is based largely on a rise in the early 1980's in the number of young women in the prime childbearing ages of 20 to 29 years and reflects a slowly rising birth rate following the precipitous drop in the birth rate that occurred in the early 1970's.

The number continuing their education or starting careers—those 16 to 24 years—increased by 1.4 million between 1975 and 1981; the number in this group will decrease by 5.9 million between 1981 and 1990, and increase by 1.1 million between 1990 and 2000. Though there are some indications that the proportion of young people continuing their education through college is decreasing, there is a growing demand for the more specialized and technically oriented training beyond the high school level.

The largest segment of the population, that is, those 25 to 64 years of age, most of whom are in the labor force or homemakers, number 10.4 million more in 1981 than in 1975. This group will increase by 16.1 million between 1981 and 1990 and by 11.2 million between 1990 and 2000.

The older population, those 65 and over, most of whom are retired, number 3 million more in 1981 than in 1975, and will increase by about the same amount in the succeeding six years.

Population Mobility

Movers typically have different characteristics from persons who do not move. Highest mobility rates are usually found for persons in their twenties. Many are establishing their own households, starting new jobs, finishing school or service in the Armed Forces, or have been recently married. In their later twenties, many are buying a house or moving to larger living

quarters because of the addition of children to their family, or are moving to housing more convenient to schools.

In the five year period between March 1975 and March 1980, 77.2% of the persons 25 to 29 years old (in 1980) and 64.8% of those 20 to 24 years old had changed residence as compared to only 45.1% of the total population 5 years old and over at the end of the period. Fewer than 23% of the persons 55 years old and over in 1980 moved between 1975 and 1980.

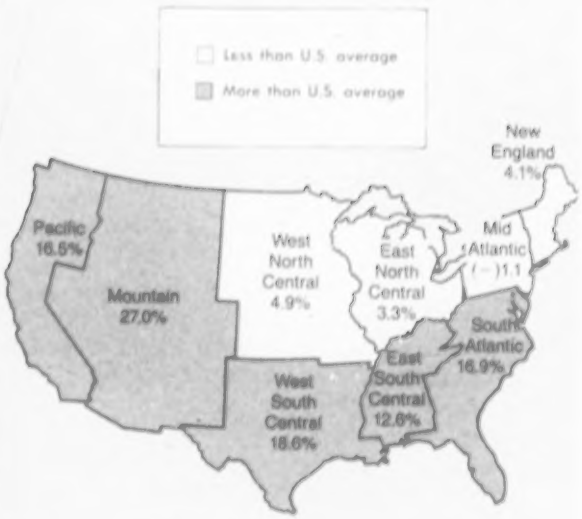
Educational attainment is a good predictor of residential mobility. Between March 1975 and March 1980, only 29% of those persons with 8 or less years of school completed had moved to a different house in the United States, while 42% of those with 1 to 4 years of high school and 51% of those with at least some college had moved.

Population Change by Region

The total U.S. resident population growth of 11.4% between 1970 and 1980, and growth of various regions of the country are shown in Chart 4. Greater than average U.S. gain in the resident population since 1970 occurred in the Mountain states (27.0%), West South Central states (18.6%), Pacific states (16.5%), South Atlantic states (16.9%), and East South Central states (12.6%). Less than average U.S. gain occurred in the New England states (4.1%), West North Central states (4.9%), and East North Central states (3.3%). Middle Atlantic states showed a decline of 1.1%. Part of the differential in rates of population growth is explained by differing birth rates, but most of the change resulted from changing economic developments and the highly mobile character of the population.

CHART 4

CHANGES IN RESIDENT POPULATION BY REGIONS, 1970-1980 TOTAL U.S. 11.4%



Source: Bureau of the Census

CHAPTER 2

IN SCHOOL AND ON THE JOB

The potential of an economic system to provide goods and services to satisfy human wants is limited by the size and skills of the labor force and by its managerial capabilities.

Labor force participation and education are necessary in an interrelated process in the modern world. The capability and quality of the present day work force is a product of past education and training. The productivity of the labor force will also depend on continuing education and training, and on government policies and practices.

Potential Labor Force

The total number of persons that may be available for work, which may be called the potential labor force and defined as the noninstitutional population 16 years of age and over, averaged 168.6 million in 1981, having increased by 1.4% from 1980 (Table 3). The relative sizes of the two broad components of the potential labor force—those in the labor force and those not in the labor force—changed only slightly from 1980 to 1981.

The labor force of 108.5 million in 1981 had increased at a rate of 1.6% over the year before in contrast to 1.7% in 1980 over 1979. Those 16 years of age and over who were not in the labor force—those keeping house, going to school, unable to work, and those retired—numbered 60.0 million in 1981, up 1.0% from 59.4 million in 1980, in contrast to 1.4% increase in 1980 over 1979.

School Enrollment

Approximately 57.3 million persons 3 to 34 years old were enrolled in school or college in the United States in October 1980, the latest date for which statistics are available (Table 4). This number enrolled in school part-time or full-time, which comprised 49.7% of the population 3 to 34 years of age, represents a decrease of 0.6% from the 57.9 million enrolled in October 1979.

School enrollment rates for children 3 to 4 years old increased substantially over the past 8 years. In 1972, 24.4% of the children 3 to 4 years old were enrolled in nursery school or kindergarten; in 1980, 36.7% of those in this age group were enrolled in school.

School enrollment rates continued to rank high for the compulsory attendance ages. Over 99% of those age 7 to 13 were enrolled in school in 1980.

Nevertheless, declining numbers of younger children has caused a drop-off in the grade school population. Elementary school enrollment peaked in 1970 at 34.0 million and had dropped by 19.1% to 27.4 million in 1980. High school enrollment in 1980 showed a decrease for the third year and is likely to decrease further unless there is a significant lowering of the dropout rate which seems unlikely. Thus, it may be expected that college enrollment will decline in the 1980's.

The number of college students was 8.3 million in 1972 but in 1980 there were

10.2 million college students, an increase of 20%. This number ties the peak of 10.2 million reached in 1977. From 1972 to 1980 the majority of the increase in college enrollment was due to the growth in women's college attendance. Women increased their enrollment by 54%, whereas men increased theirs by about 4%. Women have constituted over half of the college population since 1979. These developments coincide with other social and economic changes that have occurred recently among women such as marrying later, having fewer children, increased participation in the labor force, and continuing to work after children are born. In recent years, more women have been remaining in the labor force making economic use of their education.

The large increase in female enrollment was partially accounted for by the substantial rise in the number of older women attending college. The number of women 25 years of age or older in college more than doubled between 1972 and 1980, increasing from 999,000 to 2,180,000. Attendance at college by males in the age group by contrast increased only from 1,543,000 to 1,730,000 (12%).

Employment

The total labor force averaged 108.5 million in 1981, up 1.7 million from 1980. With no reductions in the armed forces, the civilian labor force also rose by 1.7 million, slightly slower than the 1.8 million increase for 1980. Average civilian employment for the year increased by 1.1 million to 98.3 million as the participation rate remained slightly above 64% and unemployment increased by 0.6 million.

TABLE 3

THE LABOR FORCE AND THOSE NOT IN THE LABOR FORCE
SELECTED YEARS, 1975-1990*

(In millions of persons 16 years of age and over)

						Projected	
	1975	1978	1979	1980	1981	1985	1990
Population 16 years of age and over Total	155.7	163.7	166.4	168.4	170.5	178	185
Noninstitutional**	153.4	161.1	163.6	166.2	168.6	175	182
Labor force including armed forces	94.8	102.5	105.0	106.8	108.5	114	121
Armed forces	2.2	2.1	2.1	2.1	2.1	2	2
Civilian labor force	92.6	100.4	102.9	104.7	106.4	112	119
Employed	84.8	94.4	96.9	97.3	98.3	107	114
Unemployed	7.8	6.0	6.0	7.4	8.0	5	5
Not in labor force	58.6	58.5	58.6	59.4	60.0	61	61

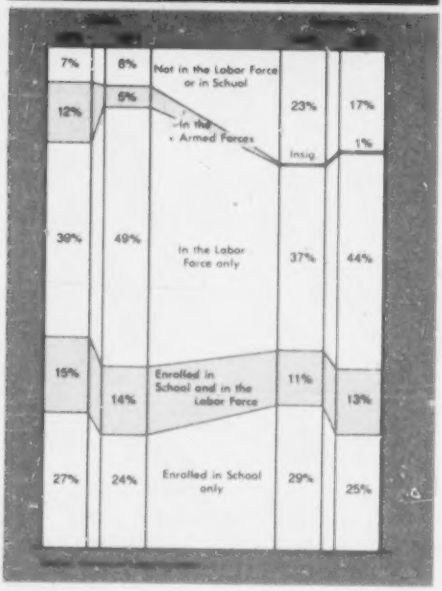
Source: Bureau of the Census and Bureau of Labor Statistics.
Note: Parts may not add to totals due to rounding.

*Average of monthly totals except for population which is as of July 1 of each year. See Footnotes to Table 1 and 2 for basis for total population estimates and projections. Labor force projections are NCFA estimates based on latest base growth projections by the Bureau of Labor Statistics.

**Does not include those in mental, penal or welfare institutions.

CHART 5

YOUNG PEOPLE 16-21 YEARS OF AGE IN SCHOOL AND IN THE LABOR FORCE 1970 AND 1981



Labor force participation rates change from time to time for many homemakers, students, retired and disabled persons and persons "doing their thing." Those in the 16 to 19 year age group are the least likely to be consistently in the labor force and their participation has been dropping since early 1979 (Chart 6). There is also a growing fluctuation in the participation rate of males 20 years of age and over, as well as a long term declining rate (from 82% in 1972 to 71.5% in 1981). By contrast, participation in the labor force by women 20 years of age and over has increased from 43.9% in 1972 to 52.3% in 1981.

Married Women in the Labor Force

More than one-half (50.2%) of all married women were in the labor force in 1980 (Chart 7). The participation rate for married women generally increases with the number of years of school completed by the wife, with husband's income, and with the absence of children under six

TABLE 4

ESTIMATED SCHOOL ENROLLMENT, SELECTED YEARS, 1975-1980*

(In thousands)

By Grade	1975	1977	1978	1979	1980
Nursery school	1,748	1,618	1,824	1,869	1,987
Kindergarten	3,393	3,191	2,989	3,025	3,176
Elementary school	30,446	29,234	28,490	27,865	27,449
High school (grades 9-12)	15,685	15,753	15,475	15,116	14,556
College or professional school	9,697	10,217	9,838	9,978	10,180
Total	60,969	60,013	58,616	57,854	57,348
By Selected Age Groups	(Percent of population enrolled)				
18 and 19 years	46.9%	46.2%	45.4%	45.0%	46.4%
20 and 21 years	31.2%	31.8%	29.5%	30.2%	31.0%
22 to 24 years	16.2%	16.5%	16.3%	15.8%	16.3%
Total 3 to 34 years	53.7%	52.5%	51.2%	50.3%	49.7%

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* Estimates are for the population 3 to 34 years old and for October of each year.

years of age. Married women with one or more children under 18 were more likely to be members of the labor force (54.2%) than married women who had no children under 18 (46.1%). Highest participation rate (61.8%) was among married women with children 6 to 17 years of age.

Industry Employment

Nonfarm payroll employment continued to gain in 1981, although very slowly, as a recession took hold in the second half of the year. Employment in the service-producing sector continued its long-term growth pattern, little affected by cyclical downturns. In State and local government there was a slight decrease, while Federal employment fell off to end 1981 slightly below 1980 (Chart 8).

Employment in transportation and public utilities increased slightly over 1980. Contract construction employment by mid-1981 had dropped below the level of late 1980.

The number of jobs in the goods-producing sector dropped again during 1981 and at year end stood at about the same as year end 1978.

Occupations

The number of white-collar workers averaged 52.9 million in 1981 up from 50.8 million in 1980 with all types showing increases (Table 5).

CHART 6

CIVILIAN LABOR FORCE PARTICIPATION RATES BY SEX AND AGE, 1965-1981

(Seasonally adjusted)

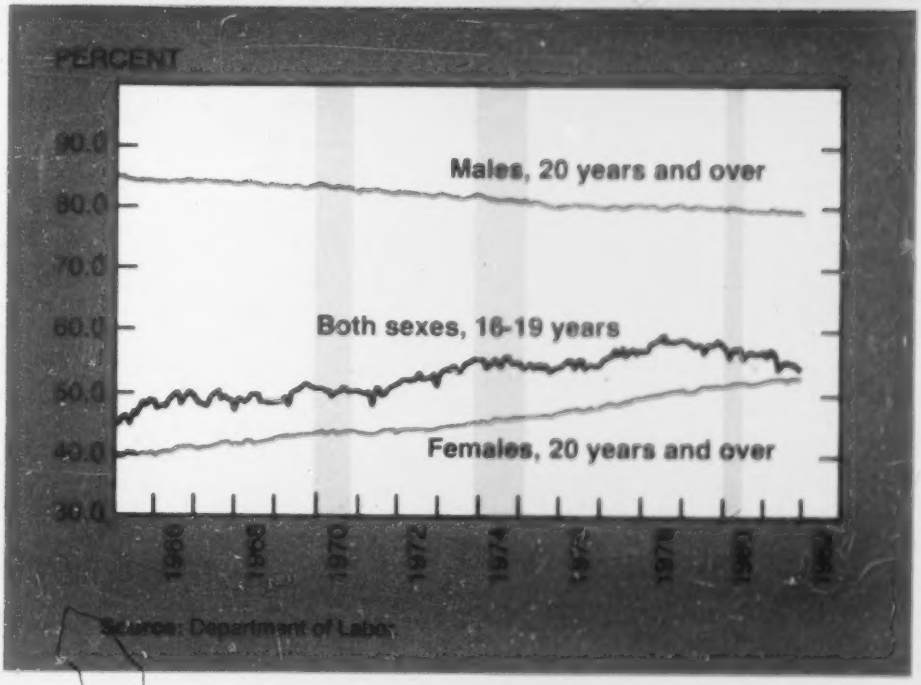


CHART 7

LABOR FORCE PARTICIPATION RATES OF MARRIED WOMEN BY PRESENCE AND AGE OF CHILDREN MARCH 1965 TO MARCH 1980

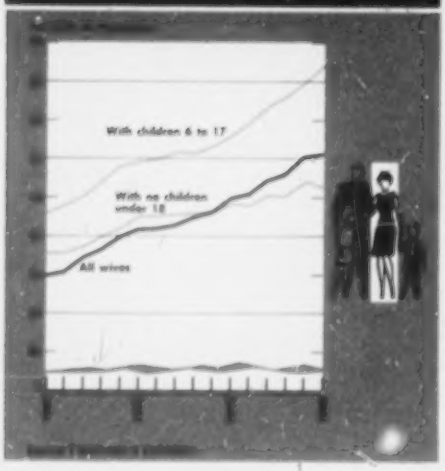
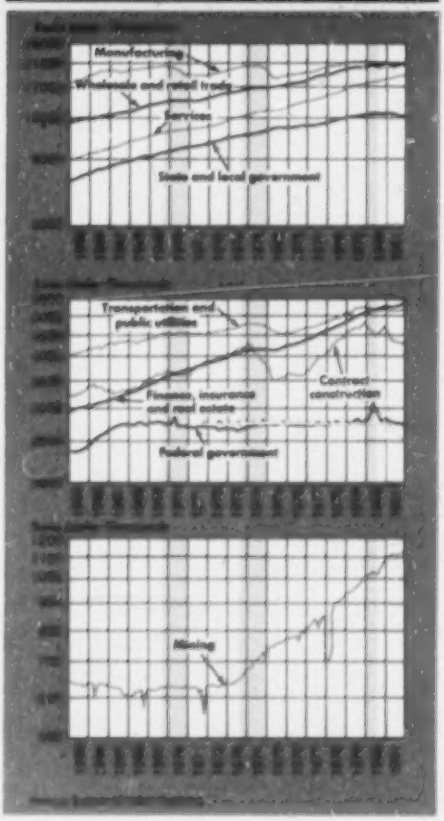


CHART 8

NONAGRICULTURAL PAYROLL EMPLOYMENT BY INDUSTRY 1965-1981



Blue-collar employment at 31.3 million in 1981 was 0.5 million above 1980, while service workers showed a 0.5 million increase and the number of farm jobs stayed the same at 2.7 million.

Unemployment

The unemployment rate averaged 7.6% in 1981 up from 7.1% in 1980. The rate for teenagers, however, approximated 19.6% in contrast to 6.4% for adult males, and 6.9% for adult females (Chart 9). One indicator of manpower requirements is the Help-Wanted Index of The Conference Board (Chart 10). This index reached a peak of over 120 in 1969 and 1973 (Index 1967 = 100), was at a low of 72 in early 1975, reached another high point of 168 in November 1979, dropped to 130 by year end 1980 and continued to decline to 109 by year end 1981.

The Labor Force in the Future

The expansion of 11.0 million in the labor force to 119.4 million between 1981 and 1990 will produce quite a different age profile from that which has developed during the 1970's (Chart 11). The number of young 16-19 year olds in the labor force in 1990 will be the same as in 1981 and there will be approximately 2.1 million less aged 20 to 24, 14.3 million more aged 25 to 54, but 1.0 million less aged 55 to 64, and about 0.2 million less 65 years of age and over. In terms of occupational groups, the faster growing employment opportunities will be for white-collar workers, especially professional and technical.

TABLE 5

EMPLOYED PERSONS BY OCCUPATION GROUPS, SELECTED YEARS, 1975-1981

(In millions)

	1975	1977	1978	1979	1980	1981
White-collar workers	42.2	45.2	47.2	49.3	50.8	52.9
Professional and technical	12.7	13.7	14.2	15.0	15.6	16.4
Managers and administrators	8.9	9.7	10.1	10.5	10.9	11.5
Sales workers	5.5	5.7	6.0	6.2	6.2	6.4
Clerical workers	15.1	16.1	16.9	17.6	18.1	18.6
Blue-collar workers	28.0	30.2	31.5	32.1	30.8	31.3
Craft and kindred workers	11.0	11.9	12.4	12.9	12.5	12.7
Operatives	12.9	13.8	14.4	14.5	13.8	14.0
Nonfarm laborers	4.1	4.5	4.7	4.7	4.5	4.6
Service workers	11.7	12.4	12.8	12.8	12.9	13.4
Private household workers	1.2	1.2	1.2	1.1	1.0	1.2
Other	10.5	11.2	11.7	11.7	11.9	12.2
Farm workers	2.9	2.8	2.8	2.7	2.7	2.7
Total employed	84.8	90.5	94.4	96.9	97.3	100.4

Source: Bureau of Labor Statistics.
Note: Parts may not add to totals due to rounding.

CHART 9

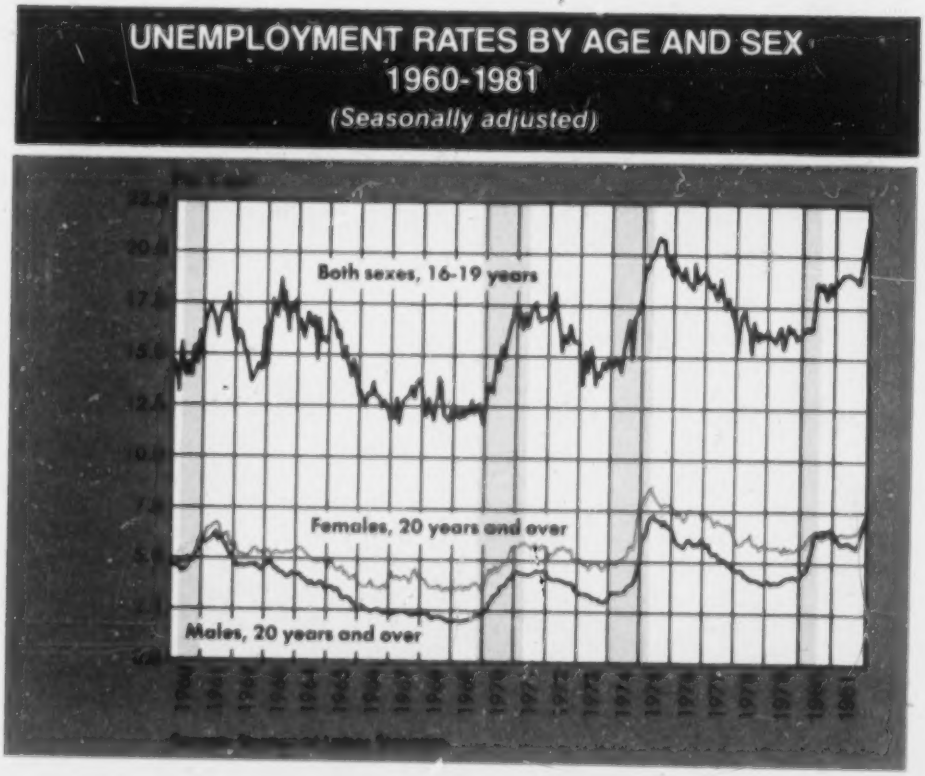


CHART 10

HELP-WANTED INDEX AND THE UNEMPLOYMENT RATE, 1974-1981

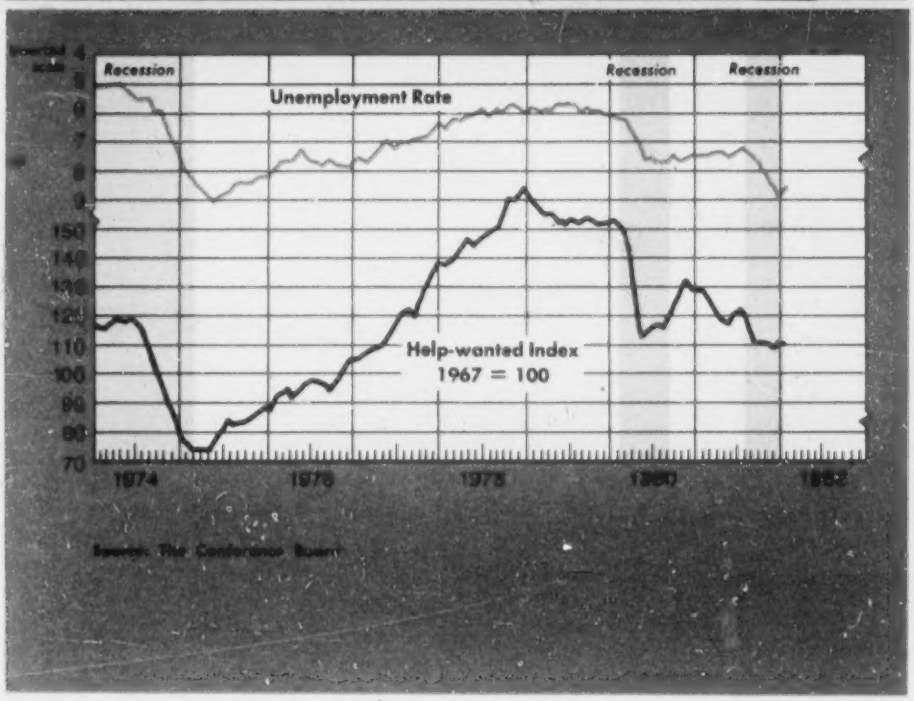
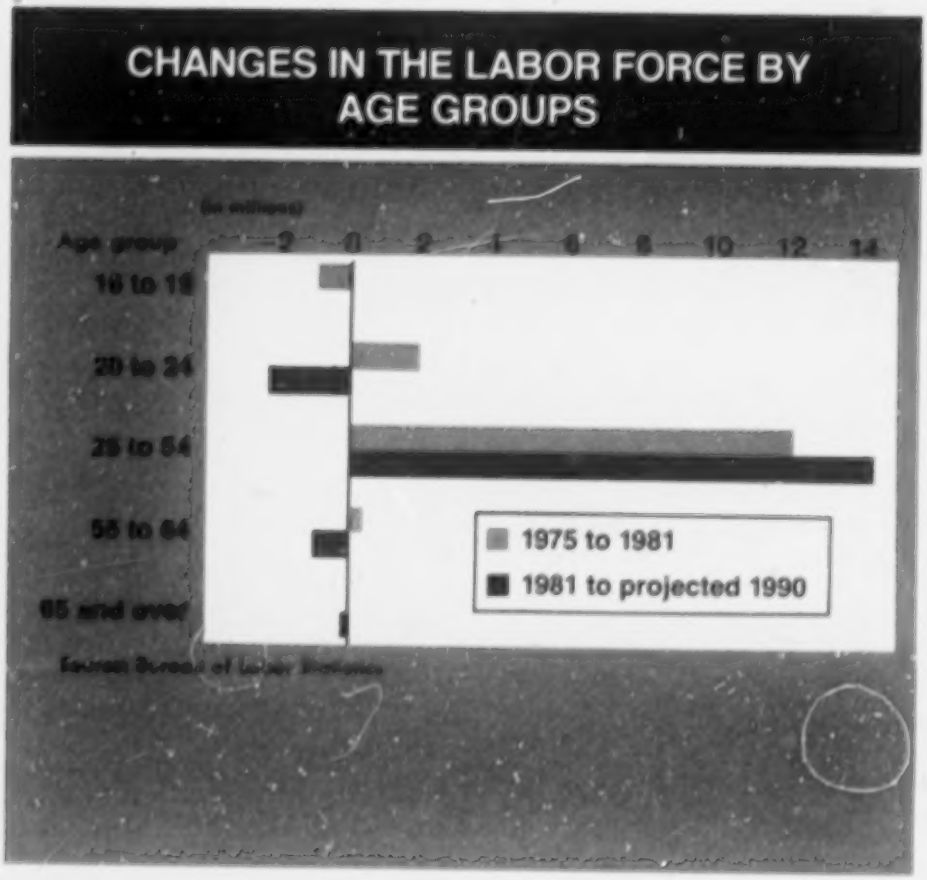
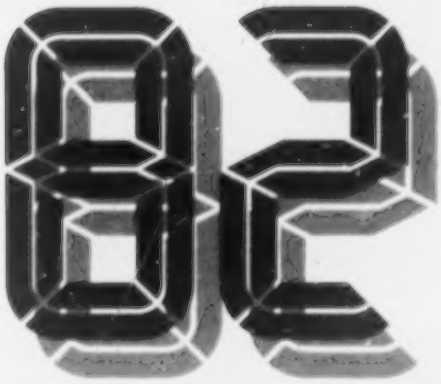


CHART 11


CHANGES IN THE LABOR FORCE BY AGE GROUPS
(in millions)
Age group
2
0
2
4
6
8
10
12
14
16 to 19
20 to 24
25 to 54
55 to 64
65 and over
1975 to 1981
1981 to projected 1990

CHAPTER 3

CONSUMERS AND THEIR INCOME



The success of a modern economic system depends not only on the level of total output at any one time; it also depends on capital formation and on governmental action, both of which provide essential elements necessary for efficient production in the future. A major element of a successful economic system is a flow-of-income process with contributions to production by labor, capital, and government. The shares of income received by individuals for labor performed, capital invested, and as transfer payments (for which no service is currently rendered) form the components of personal income.

TABLE 6

SOURCES OF PERSONAL INCOME, SELECTED YEARS, 1975-1981

(In billions of dollars)

Year	Wages, Salaries and Related Income *	+ Proprietors Income	+ Income from Rent, Interest and Dividends	+ Income from Transfer Payments**	- Personal Contributions for Social Insurance	= Personal Income
1975 ...	870.9	90.0	176.1	178.3	50.4	1,265.0
1977 ...	1,072.9	103.5	215.3	207.5	61.1	1,538.0
1978 ...	1,207.4	117.1	243.7	223.3	69.6	1,721.8
1979 ...	1,354.7	131.6	288.7	249.4	80.6	1,943.8
1980 ...	1,480.8	130.6	342.5	294.2	87.9	2,160.2
1981 ...	1,636.8	134.8	403.4	333.2	104.2	2,404.1

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

* Related income, which is called "other labor income" by the Department of Commerce, includes compensation for injuries, employer contributions under private pension and related programs, and other items such as the pay of military reservists and directors' fees.

** Transfer payments include benefit payments made under government (Federal, State and local) social security, unemployment and veterans' programs, and miscellaneous payments by business.

Personal Income and its Sources

Personal income totaled $2,404.1 billion in 1981, up from $2,160.2 billion in 1980 for a gain of 11.3% (Table 6). Personal contributions for social insurance at $104.2 billion were up 18.5%.

Among the principal components of personal income, the greatest percentage rise in 1981 over 1980 was in personal interest income (20.4%) followed by income from transfer payments (13.2%). Increases in rental income of persons at 5.7% and nonfarm proprietors' income at 4.8% were well below the average increases in the other components of personal income. Farm proprietors income was down 4.3%.

Transfer payments (income of persons, generally in monetary form, for which no

TABLE 7

DISPOSITION OF PERSONAL INCOME, SELECTED YEARS, 1975-1981

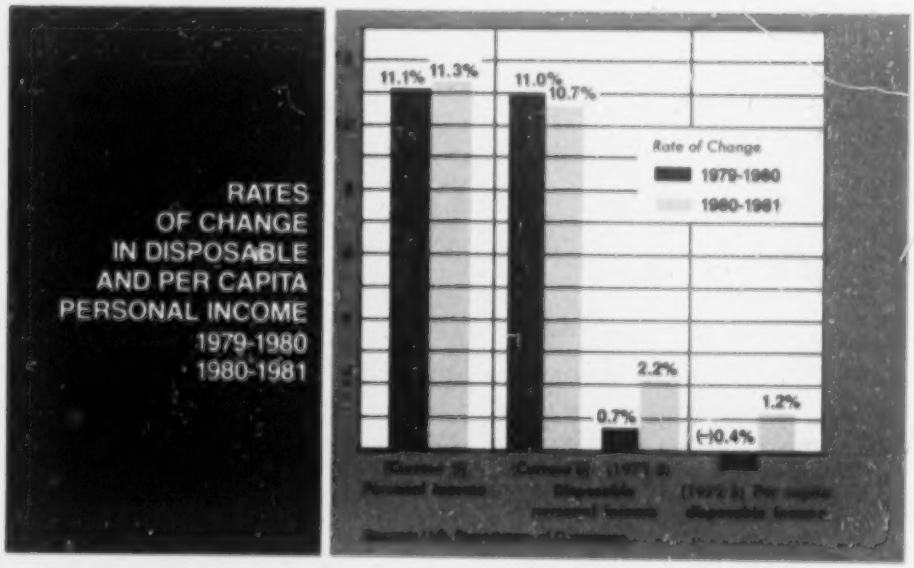
(In billions of dollars)

Year	Personal Income	- Tax and Nontax Payments	= Disposable Personal Income	- Personal Outlays	= Personal Saving
1975	1,265.0	168.9	1,096.1	1,001.8	94.3
1977	1,538.0	226.5	1,311.5	1,237.5	74.1
1978	1,721.8	258.8	1,462.9	1,386.6	76.3
1979	1,943.8	302.0	1,641.7	1,555.5	86.2
1980	2,160.2	338.5	1,821.7	1,720.4	101.3
1981	2,404.1	388.2	2,016.0	1,908.4	107.6

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

CHART 12



services are rendered currently) have been increasing faster than the increase in income received by current producers. Liberalized social security, veterans', and government pension and welfare benefits accounted for most of these rises. In 1981, unemployment benefits added somewhat to the increase. The increases have been accentuated as the social security and government pension benefit rises have been tied to increases in the consumer price index. Income from transfers amounted to 11.0% of personal income in 1972, 13.6% in 1980, and 13.9% in 1981.

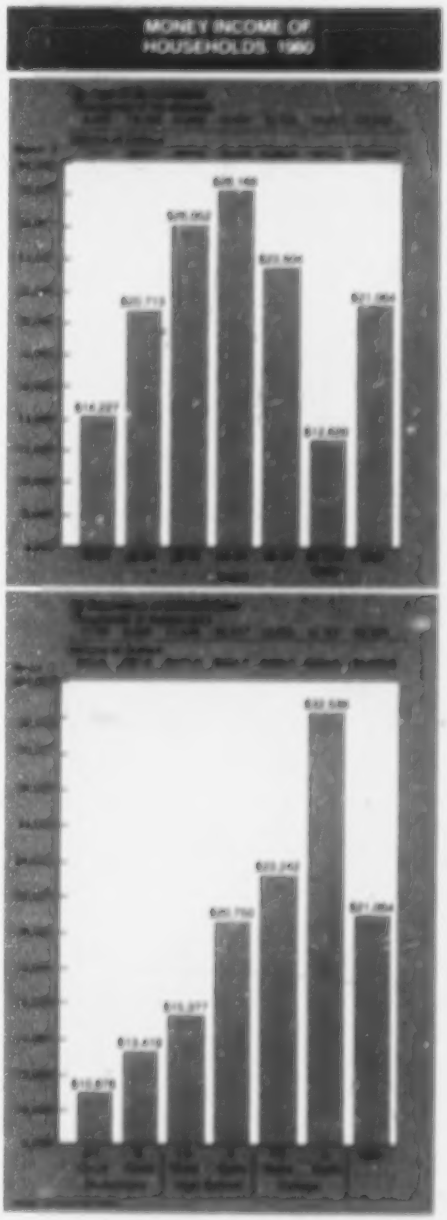
Disposable Income

Personal tax payments for the year 1981 at $388.2 billion were up 14.7% from 1980. At $2,016.0 billion, disposable personal income was up 10.7% from 1980 (Table 7). Personal outlays at $1,908.4 billion were up 10.9% leaving personal saving at $107.6 billion for an increase of 6.2% from 1980.

Real Income

Real income in 1981 was 1.0% higher than 1980 when total personal income is adjusted by the 9.3% rise in consumer prices as measured by the consumer price index for all urban wage earners and clerical workers. However, this estimated price rise may overstate the actual price rise because of the component weights given various items such as housing. A more reliable estimate of the effect of price rise on income is found in the deflators used by the Department of Commerce as shown in Chart 12. While total personal income in 1981 rose 11.3% and income after taxes rose 10.7% in current dollars, if these are adjusted for price changes by the personal consumption expenditures deflator and measured in prices of 1972, the rise in disposable personal income in 1981 was only 2.1%. Overall disposable income in 1981 was affected by an overall 8.3% rise in prices above 1980. When account is also taken of population changes, real per capita disposable income at $4,526 (in 1972 dollars) in 1981 was 1.2% more than 1980 in contrast to the 0.4% decrease the year before.

CHART 13



Household and Families

The Census Bureau defines a household as "all of the persons who occupy a

house, an apartment, or other group of rooms, or a room which constitutes a housing unit," whereas a family is defined as "a group of two or more persons related by blood, marriage, or adoption and residing together." Thus a family is essentially a sociological unit, whereas a household is an economic unit. It is the economic unit which is the primary unit of consumption for many goods and services, especially housing, house operations, consumer durables, and frequently food.

Household Income

Median money income for households in the United States was $17,709 in 1980, the latest year for which data are available from the Census Bureau. Mean income in 1980 was $21,064.

As is shown in Chart 13, household income tends to rise until the householder (head of household) reaches late middle age and to decline thereafter. In 1980, the mean income (that is, the total income for the group divided by the number in the

TABLE 8

SELECTED CHARACTERISTICS OF HOUSEHOLDS—NUMBER, MEAN INCOME AND AGGREGATE INCOME OF EACH GROUP, 1980*

	Thousands of Households	Mean Household Income	Aggregate Income (In billions of dollars)
All Households	82,368	$21,063	1,734.9
Type of Household			
Male Householder	58,685	$24,540	1,440.1
Female Householder	23,684	$12,446	294.8
Number in Household			
One	18,936	$10,981	207.9
Two	25,787	$20,943	540.0
Three	14,569	$24,387	355.3
Four	12,768	$26,921	343.7
Five or more	10,309	$27,762	286.2
Type of Residence			
Nonfarm	80,527	$21,130	1,701.5
Farm	1,841	$18,123	33.4
Inside metropolitan area	56,072	$22,348	1,253.1
Outside metropolitan area	26,296	$18,322	481.8
Owner occupied	55,881	$24,147	1,349.4
Renter occupied	25,015	$14,686	367.4
Paid no cash rent	1,473	$12,354	18.2
Region			
Northeast	17,781	$21,449	381.4
North Central	21,200	$21,261	450.7
South	27,220	$19,703	536.3
West	16,167	$22,667	366.5

Source: Bureau of the Census

Note: Parts may not add to totals due to rounding.

* Numbers as of March 1981.

group) rose from $14,227 for households in which the head was under 25 years of age to $28,169 for households headed by a person between 45 and 54 years of age, then declined to $12,628 for households for which the householder was 65 years of age or over.

Education of the householder is closely related to household income. The largest single group is that in which the householder has completed high school but gone no further in school. In 1980, this group comprised 48.6% of the households, and the mean income was slightly below that for all households, 9.7% below. At the one extreme, where the householder has completed 4 or more years of college there were 18.5% of the households, with mean income of 54.5% above that for all households. At the other extreme, where the householder had completed less than 8 years of school, there were 9.4% of the households, and the mean income was 52.1% below that for all households.

Other characteristics of households that reveal varying levels of household income are number in the household, type of residence (farm-nonfarm, inside or outside metropolitan area, owner occupied or not), and region of the country (Table 8).

Family Income

The median income of all families in the United States was $21,023 in 1980 and the mean was $23,974 (Table 9). Median income in current dollars in 1980 was 6.9% above 1979.

The average annual increase in median real income (1980 dollars) of families since 1970 has been 0.04% which was much less than the average annual increase experienced between 1960 and 1970 (3.4%). The slower growth in median real income during the 1970's is in part related to slower overall economic growth and the severe recession from November 1973 to March 1975. Median real

TABLE 9

FAMILIES AND UNRELATED INDIVIDUALS
BY TOTAL MONEY INCOME IN 1980

	Families		Unrelated Individuals	
	Thousands	Percent Distribution	Thousands	Percent Distribution
Total Money Income				
Under $5,000	3,736	6.2%	8,346	30.8%
$5,000 to $9,999	7,646	12.7%	7,283	26.9%
$10,000 to $14,999	8,537	14.2%	4,864	17.9%
$15,000 to $19,999	8,414	14.0%	3,000	11.1%
$20,000 to $24,999	8,263	13.7%	1,762	6.5%
$25,000 to $29,999	6,780	11.3%	862	3.2%
$30,000 to $34,999	5,181	8.6%	420	1.6%
$35,000 and over	11,750	19.5%	596	2.2%
Total	60,309	100.0%	27,133	100.0%
Memorandum				
Median Income	$21,023	--	$8,315	--
Mean Income	$23,974	--	$10,815	--

Source: Bureau of the Census.

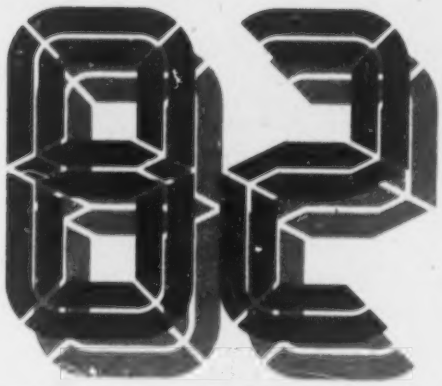
Note: Parts may not add to totals due to rounding.

family income increased 6.7% between 1970 and 1973, when the median (in 1980 dollars) reached $22,346. However, median income declined by 6.0% between 1973 and 1975 and the increase of 0.1% since 1975 resulted in a real median family income for 1980 which was equal to that of 1975.

In addition to the economic problems of recession and highlevel inflation during the 1970's, there were also changes in family structure which have affected income levels. From March 1970 to March 1981, there was a substantial increase in the proportion of families maintained by a female householder with no husband present (10% to 15%). There was also an increase, from 28% to 30%, in the proportion of families maintained by younger persons (under 35 years of age). These changes have exerted a downward influence on overall median income since families maintained by women and younger persons tend to have lower incomes.

CHAPTER 4

CONSUMERS— THEIR SPENDING AND CAPITAL FORMATION



Together with investment spending of producers and spending by governmental bodies and foreigners in the domestic economy, the spending decisions of consumers determine both the level and composition of American economic output. The broadest measure of output is gross national product (GNP).

Gross National Product

The gross national product, defined as the value of goods and services produced, was $2,925.5 billion in 1981, up 11.4% from the previous year (Table 10). If account is taken of an overall 9.2% rise in prices based on 1972 dollars, there was an

TABLE 10

GROSS NATIONAL PRODUCT, SELECTED YEARS, 1975-1981

Year	Total GNP	Personal Consumption Expenditures: Durable Goods	Personal Consumption Expenditures: Non-durable Goods	Personal Consumption Expenditures: Services	Personal Consumption Expenditures: Total	Government Purchases	Domestic Investment	Net Exports
	(Billions of current dollars)							
1975	1,549.2	132.2	407.3	437.0	976.4	339.9	206.1	26.8
1977	1,918.0	178.8	479.0	547.7	1,205.5	394.5	322.3	(-) 4.2
1978	2,156.1	199.3	529.8	619.6	1,348.7	432.6	375.3	(-) 0.6
1979	2,413.9	212.3	602.2	696.3	1,510.9	473.8	415.8	13.4
1980	2,626.1	211.9	675.7	785.2	1,672.8	534.7	395.3	23.3
1981	2,925.5	232.0	743.2	882.6	1,857.8	591.2	450.5	26.0
	(Billions of constant 1972 dollars)							
1975	1,233.9	112.7	308.2	359.3	780.2	266.7	154.8	32.2
1977	1,371.7	138.4	334.0	391.5	863.9	272.3	213.5	21.9
1978	1,436.9	146.3	345.7	412.8	904.8	277.8	229.7	24.6
1979	1,483.0	146.6	354.6	429.6	930.9	281.8	232.6	37.7
1980	1,480.7	135.8	358.4	440.9	935.1	290.0	203.5	52.0
1981	1,510.3	139.4	367.3	452.2	958.9	291.7	214.8	44.9

Source: U.S. Department of Commerce.

Note: Parts may not add to totals due to rounding.

increase of 2.0% from 1980 to 1981. Of the total product, personal consumption expenditures amounted to $1,857.8 billion (63.5%), government purchases $591.2 billion (20.2%), gross private domestic investment $450.5 billion (15.4%), and net exports $26.0 billion (0.9%). Compared to 1972, a larger proportion of GNP is now going to personal consumption and exports, and a smaller proportion to domestic investment and government purchases of goods and services.

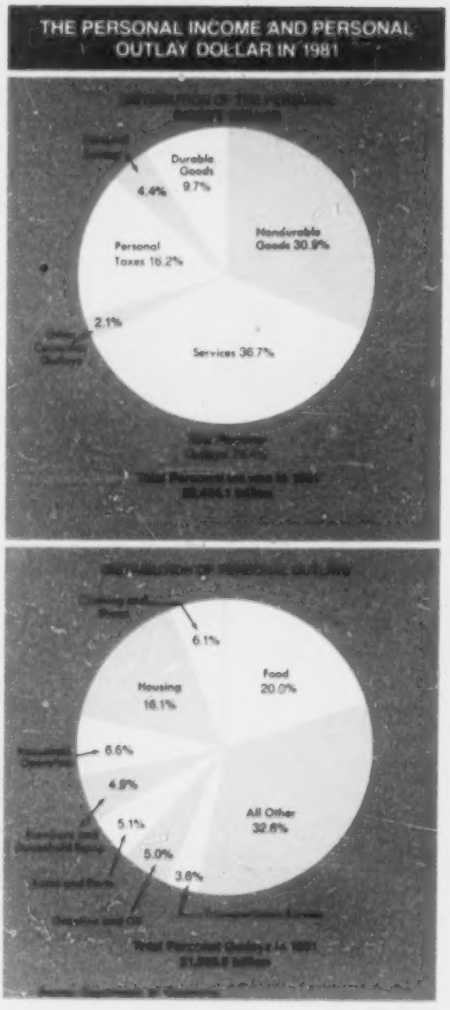
Personal Outlays

Personal outlays (defined by the Department of Commerce to include personal consumption expenditures, interest payments by individuals and transfers abroad by individuals) on an average moved up nearly proportionately with disposable personal income during the 1960's. During recessions or pauses in business growth when durable goods spending was greatly reduced, consumer outlays dropped off as a percent of disposable income and during strong recovery periods personal outlays increased again. However, since 1970 personal outlays have shown less sensitivity to changes in the business cycle, largely because the service segment of expenditures has shown a continuing rise throughout recessions and the durable goods segment which is cyclically sensitive now has proportionately less weight in consumer expenditures. Personal outlays as a percentage of disposable personal income since 1970 have varied between 91.4% (1973, 1975) and 94.8% (1978, 1980). For 1981, the percentage was 94.7% (Chart 14).

Personal Consumption

In 1981, personal consumption expenditures at $1,857.8 billion in current dollars were 11.1% above 1980, a larger increase than the 10.7% the year before. Expenditures for durable goods were up 9.5% (automobiles and parts were up 9.3%), Expenditures for services continued to rise—12.4%—after increasing 12.8% in 1980 over 1979. Expenditures for nondurable goods in 1981 were up 10.0%.

CHART 14



Personal consumption expenditures in real terms in 1981 (1972 dollars) increased 2.5% from 1980. Real spending on durable goods, nondurable goods and services all registered increases in 1981.

Retail sales of new motor vehicles at about 8.5 million vehicles in 1981 were down 5.0% from 1980. Sales of imports decreased slightly to 2.3 million down from 2.4 million in 1980 making their share of the market 27%. Domestic passenger cars at 6.2 million units in 1981 were down from 6.6 million units in 1980.

Personal Saving

The personal saving rate (saving as a percent of disposable personal income) in the first half of the '70's varied between 8.6% (1973) and 6.5% (1972), and in the last half between 8.6% (1975) and 5.2% (1978, 1979). Since 1976, the saving rate for any year has not exceeded 5.6%. This continuing low rate during 1977 through 1981 reflects consumers' attempts to maintain their level of purchases of goods and services in the face of sharp price increases and in anticipation of future price increases.

Budgets and Spending

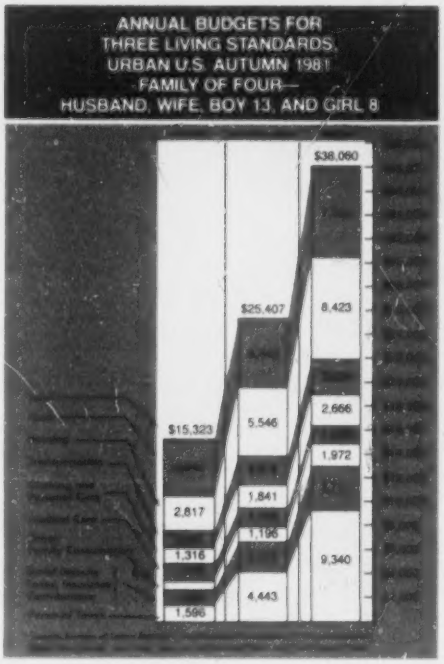
Spending patterns differ widely for families depending not only on income but also on the family size and age makeup, manner of living and place of residence.

The Bureau of Labor Statistics has developed several sets of budgets which describe a specified manner of living for various types of families. Among them are budgets for three levels of living standards for an urban family of four persons —husband, wife, 13-year-old boy, and 8-year-old girl. Estimates of budget costs in 24 metropolitan areas, 4 regional classes of nonmetropolitan areas, and urban U.S. are available for autumn 1981.

This carefully defined budget-type family, consisting of a 38-year-old husband employed full-time, a wife not employed outside the household, a boy of 13, and a girl of 8, is assumed to have an average inventory of clothing, home furnishings, major durables, and other equipment. At this middle stage in the life cycle—after about 15 years of married life—a family is well established, and the husband is generally an experienced worker.

For the intermediate budget, the U.S. urban average cost was $25,407 in the autumn of 1981 (Chart 15). The cost of the lower budget was $15,323—40% less than the intermediate. The higher budget amounted to $38,060—33% above the intermediate budget. The figures include

CHART 15



cost of consumption—food, housing, transportation, clothing, medical care and education—as well as other expenses including life insurance, occupational expenses, social security payroll deductions, and personal taxes.

Family consumption items comprised 72% of the intermediate family budget in autumn 1981 with the remaining 28% composed of gifts and contributions, occupational expenses, life insurance, and social security and personal income taxes. Total family consumption at the lower and higher budgets comprised 79% and 66% of the family budget respectively.

Food costs accounted for 30% of total family budgets at the lower level, 23% at the intermediate, and 19% at the higher level. Food costs represent the largest single component for the lower and intermediate budget levels while the largest component at the higher level is housing expenditures at 22%.

Inflation has altered drastically the respective proportions of income going for

BEST AVAILABLE COPY

components of consumption and for taxes. Chart 16 shows that a budget identical to that requiring $38,060 in 1981 would have required only $16,558 in 1972.

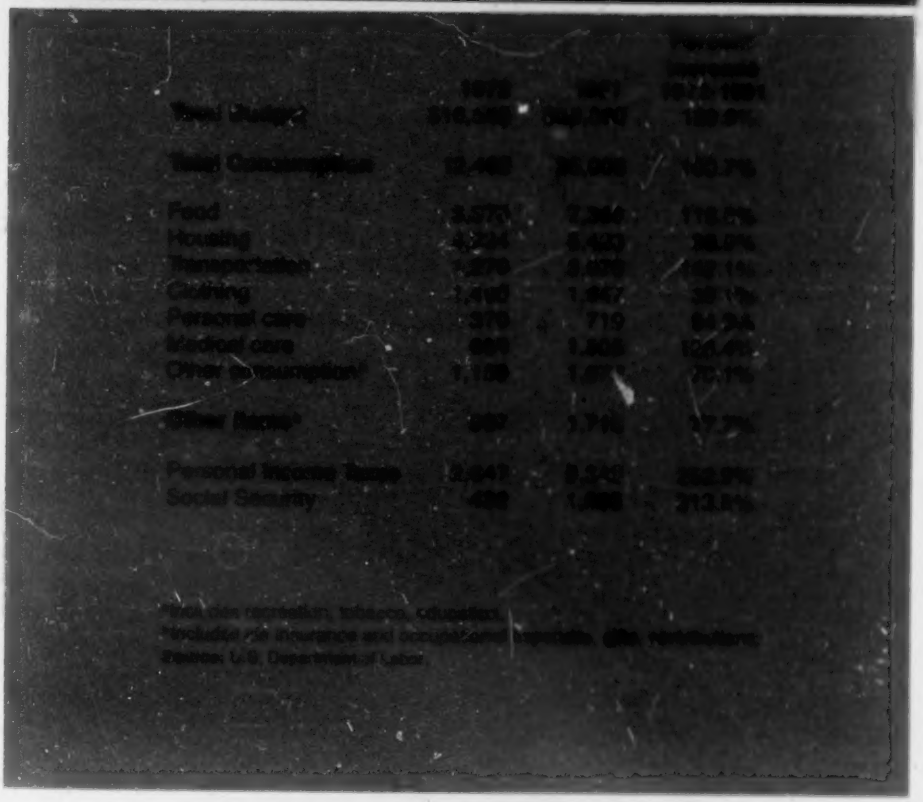
In 1972, personal taxes and taxes on individuals for social insurance absorbed 19% of the budget; in 1981—25%. Of the entire rise in living costs, over a third was accounted for by taxes (including social security taxes). Items that increased more than the average of 100.7% for total consumption were food (118.6%), transportation (142.1%), and medical care (128.4%). Items that increased least were clothing (39.1%), housing (98.9%), personal care (94.3%), and a miscellaneous group including recreation, tobacco, and education (70.1%).

Measuring Consumer Behavior

Awareness of the complexities and significant economic role of personal income and consumers' spending and saving decisions have given rise to the development of indicators designed to measure more precisely various aspects of the consumer sector. With the constant refinement of these types of indicators, there is

CHART 16

INFLATION AND THE FAMILY BUDGET
FIXED BUDGET FOR URBAN FAMILY OF FOUR



a broader understanding of changing consumer attitudes toward goods, services, credit, security, family needs, and changing family values.

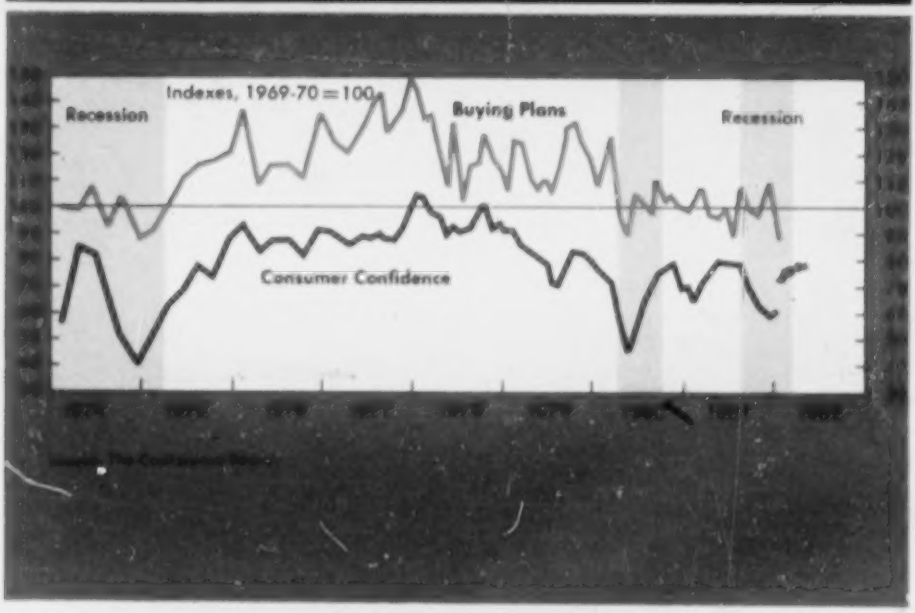
The Conference Board, at monthly intervals, reports consumer attitudes and buying plans based on surveys conducted by National Family Opinion, Inc. The results of these surveys are summarized in two indexes—the Index of Buying Plans and the Index of Consumer Confidence. Both of these indexes appear to have been useful guides which preceded downturns in the economy in previous business cycles (Chart 17). At 99.2 (1969 = 100) the Index of Buying Plans in December 1981 was above the average for the year and up from 89.2 in December 1980. The Index of Consumer Confidence suggests that consumers have remained pessimistic for the last few years.

Indexes of Consumer Financial Behavior, developed by the National Consumer Finance Association and referring to base year 1972 = 100, highlight recent trends in consumer income and its uses and thus assist in the task of projecting the effect of such trends in the overall economy (Chart 18).

The indexes reveal that, based on index 1972 = 100, personal taxes were at 282.3 at a seasonally adjusted rate in fourth quarter 1981, while personal income was at 261.4 and personal saving at 243.3. The indexes for consumer expenditures were: durables—203.8; nondurables—252.9; and services—283.3. At 211.8 in the fourth quarter, the index for installment

CHART 17

CONSUMER CONFIDENCE AND BUYING PLANS

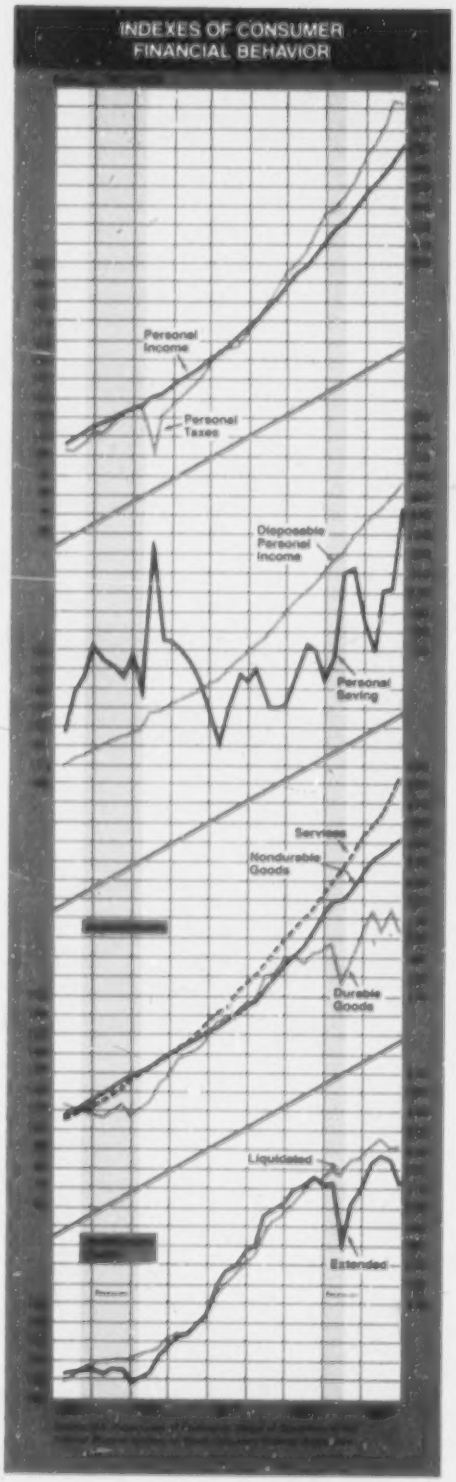


BEST AVAILABLE COPY

BEST AVAILABLE COPY

credit extended was below the installment credit liquidated index at 231.7.

CHART 18



Consumers as Capitalists

Consumers have become capitalists in the economic sense. In addition to wider ownership of the means of production, they generally own the physical capital which provides the services necessary to satisfy many of their wants for living quarters, transportation, household services, and entertainment.

The most detailed data on home ownership are for 1980, when 65% of all households owned the housing unit in which they lived. The rate of ownership varied from about 49% for households with incomes under $10,000 to 86% for those with incomes of $25,000 and over. Among husband-wife households 79% were homeowners. About 36% of these households with a head under 25 years of age owned their home. The ownership rate for the husband-wife 25 to 44 year age group was 85% and for the 45 and above groups was 87%.

Capital Formation

Capital formation (in physical terms) may be defined as the property and goods added during a time period to the stock of property and goods that promote the production of other goods and services. In this sense, owner-occupied houses and consumer durables purchased by consumers during a year are similar in nature to investment by businesses. Net capital formation in 1981 was approximately $163.5 billion (Table 11). Net capital formation by business approximated $104.5 billion and by consumers $59.0 billion—$24.5 billion for housing and $34.5 billion for durables.

In order to purchase capital items (homes, automobiles, television sets, refrigerators and other consumer durables) which require a high initial outlay, consumers often borrow or finance them and pay for them over time as they use the services of the item bought. Thus, just as a corporation sells debentures to finance

TABLE 11

CAPITAL FORMATION, 1977-1981

(In billions of dollars)

	1977	1978	1979	1980	1981
Gross Capital Formation	501.1	574.6	628.2	607.2	682.8
Business (Gross domestic investment minus household purchases of residences and condominiums)	249.3	288.5	325.1	318.1	373.3
Consumer	251.8	286.1	303.0	289.1	309.5
Housing (Household purchases of residence and condominiums)	73.0	86.8	90.7	77.2	77.4
Durables	178.8	199.3	212.3	211.9	232.1
Capital Consumption Allowances	324.6	364.1	413.6	465.3	519.3
Business (Capital consumption minus owned occupied homes)	167.4	187.4	214.5	241.6	268.8
Consumer	157.2	176.7	199.0	223.7	250.5
Housing	28.6	33.6	39.1	45.6	52.9
Durables	128.6	143.1	159.9	178.1	197.6
Net Capital Formation	176.5	210.5	214.6	142.0	163.5
Business	79.3	97.7	106.8	72.0	104.5
Consumer	97.2	112.8	107.9	70.0	59.0
Housing	47.0	56.6	55.5	36.2	24.5
Durables	50.2	56.2	52.4	33.8	34.5

Source: Federal Reserve Flow of Funds Accounts Series.
Note: Parts may not add to totals due to rounding.

goods-producing machines and the local school district floats a bond issue to build a school, in a similar way consumers finance the purchase of capital goods which require a large initial outlay. When financing in this manner, the corporation commits part of its future earnings to repayment of debentures, the school district commits part of its future tax receipts to repayment of the bond issue, and consumers commit a part of their future income to payments on a mortgage (in the case of a home) or to installment payments (in the case of consumer durables). The financial markets provide the mechanism for collecting savings and making it available for investment.

CHAPTER 5

CONSUMERS AS FINANCERS

Consumers as a group, by their decisions to spend, save, or invest, have become an important factor in determining the course and level of future business activity. With the increase and wider distribution of discretionary spending power and the broader knowledge of alternative uses of income, consumers as well as business enterprises and governments, have significant roles in the economic functions of saving, investing and capital accumulation.

Financing Government

In 1981, individuals were taxed and made payments to social insurance funds as required by law in the amount of 22.7% of their earnings from current activity, that is, personal income minus transfer payments plus payments to social insurance funds. In 1975, the percentage was 19.3% (Table 12). Taxes paid by individuals in 1981 at $388.2 billion, were up 14.7% from 1980 due largely to increased taxable incomes in nominal dollars. Payments by individuals to social insurance funds increased from $87.9 billion in 1980 to $104.2 billion in 1981—an 18.5% increase following a rise in 1980 of 9.1%.

Saving and Investment

A useful tool for determining the part played in saving and investing by various segments of the economy is the flow-of-funds series published by the Federal Reserve Board. This series defines savings as the "excess of current receipts over current expenditures by each sector." By this definition, the gross saving by households is preliminarily estimated at $441.0 billion in 1981, 9.6% above 1980 (Table 13). Net saving at $182.4 billion in 1981 was up 6.0% over 1980, as personal saving increased by $6.0 billion, credits from government insurance increased by $2.9 billion and net durables in consumption increased by $0.7 billion.

Investment is defined as the "sum of net purchases of tangible assets (expenditures for both newly produced and previously existing tangible assets less sales of tangible assets) and net acquisitions of financial assets less net increases in liabilities." By this definition, gross investment of households in 1981 is preliminarily estimated at $527.4 billion of which $336.0 billion was capital expenditures for homes, durables, etc. (up 7.3% from 1980), and $191.4 billion was net financial investment, up 12.9%. Net acquisition of financial assets by households amounted to $301.0 billion in 1981 and net increase in liabilities $109.6 billion.

Households as recorded in the flow-of-funds series includes households and nonprofit organizations serving individuals, such as foundations, private schools and hospitals, labor unions, and charitable, welfare and religious organizations.

Credit Market Debt Outstanding

It is a rare coincidence when the need for expensive items, especially capital goods, can be financed by cash savings held by those requiring the item. This is true whether it is government, a business or a household that requires the use of the item. Just as business uses commercial credit or issues bonds to finance the purchase of capital goods, so consumers finance the purchase of tangible assets—homes and consumer durable goods—through the use of home mortgages and various forms of consumer credit. As more consumers chose to buy and own more and more tangible assets, rather than pay others to supply the services which these assets provide over the years, the level of total consumer debt increased faster than other debt during the 1950's. During the late 1960's and early 1970's the debt of private business generally rose much faster than that of consumers or of government. In 1981, however, consumer debt rose by 6.5% above that of 1980, while business debt was 12.0% above and government debt 11.5% above (Table 14).

TABLE 12

FINANCING GOVERNMENT BY INDIVIDUALS
SELECTED YEARS, 1975-1981

(In billions of dollars except as indicated by percent)

	1975	1977	1978	1979	1980	1981
Total Federal Government Receipts	287.3	375.1	431.5	494.4	540.8	626.1
Total State and Local Government Receipts*	183.1	230.5	250.1	270.8	296.0	330.0
Total All Government Receipts	470.4	605.6	681.6	765.2	836.8	956.1
Received from individuals:						
In billions of dollars	219.3	287.7	328.4	382.6	426.4	492.4
Percent of total	46.6%	47.5%	48.2%	50.0%	51.0%	51.5%
Total Tax and Nontax Receipts of All Governments	359.5	465.0	519.7	578.1	633.1	717.1
Received from individuals:						
In billions of dollars	168.9	226.4	258.8	302.0	338.5	388.2
Percent of total	47.0%	48.7%	49.8%	52.2%	53.5%	54.1%
Total Social Insurance Fund Receipts	110.9	140.6	161.9	187.1	203.7	238.9
Received from individuals:						
In billions of dollars	50.4	61.3	69.6	80.6	87.9	104.2
Percent of total	45.5%	43.6%	43.0%	43.1%	43.2%	43.6%
Income of Persons from Current Earnings (Personal Income Minus Transfer Payments Plus Payments to Social Insurance Funds)	1,137.1	1,384.5	1,568.1	1,775.0	1,953.0	2,175.1
Percent paid to government, for:						
Taxes, etc.	14.9%	16.4%	16.5%	17.0%	17.3%	17.9%
Social insurance funds	4.4%	4.4%	4.4%	4.5%	4.5%	4.8%

Source: Department of Commerce.

Note: Parts may not add to totals due to rounding.

* Less Federal grants-in-aid.

At the end of 1981, consumer debt comprised 27.7% of public and private debt outstanding—little change from 27.0% in 1975.

Consumer Balance Sheet

The total assets of consumers are estimated at $10,349.4 billion as of December 31, 1981. At the same time, consumers had liabilities of $1,515.8 billion leaving them a net worth of $8,833.6 billion (Chart 19 and Table 15).

Financial assets were estimated at $6,629.0 billion. Tangible assets included $2,063.1 billion in the value of owner-occupied housing, about $615.1 billion in land on which such housing was located, and $1,042.2 billion as the value of durable goods for a total of $3,720.4 billion.

Current liabilities stood at $512.3 billion and fixed liabilities of mortgage debt at $1,003.5 billion to bring total liabilities to $1,515.8 billion.

Assets and debt position of the American consumer at the end of 1981 showed 14.8 to 1 asset to debt ratio of all assets and debts excluding those involving homeownership where the ratio was 2.7 to 1 (Table 16). The ratio of all assets to all debts was 6.8 to 1. Owners' equity stood at 85.4% of consumer assets at year end 1981.

TABLE 13

SAVING AND INVESTMENT BY HOUSEHOLDS, SELECTED YEARS, 1975-1981

(In billions of dollars)

	1975	1976	1977	1978	1979	1980	1981
Gross saving	268.3	286.4	309.5	342.3	369.2	402.2	441.0
Net saving	136.1	140.6	147.5	161.2	163.9	172.0	182.4
Personal saving	94.3	82.5	74.1	76.3	86.2	101.3	107.3
Credit from government insurance	15.1	17.7	22.5	27.9	24.4	35.3	38.2
Capital gains dividends	0.2	0.5	0.6	0.7	0.9	1.7	2.5
Net durables in consumption	26.5	40.0	50.2	56.3	52.4	33.8	34.5
Capital consumption	132.2	145.9	162.0	182.1	205.3	230.8	258.6
Gross investment	296.1	321.4	344.4	386.5	419.5	482.6	527.4
Capital expenditures (homes, durables, etc.)	183.0	223.7	265.4	302.9	326.1	313.1	336.0
Net financial investment	113.1	98.3	78.9	83.6	93.4	169.5	191.4
Net acquisition of financial assets	165.2	194.4	221.3	251.9	265.8	279.5	301.0
Net increase in liabilities	- 52.1	- 96.2	-142.4	-168.3	-172.4	-110.1	-109.6
Discrepancy(saving - investment)	-27.8	-35.0	-34.9	-43.3	-50.3	-79.6	-86.5

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

TABLE 14

CREDIT MARKET DEBT OWED BY SECTOR, AND OTHER SELECTED CLAIMS SELECTED YEARS, 1975-1981*

(In billions of dollars)

CREDIT MARKET DEBT OWED BY	1975	1977	1978	1979	1980	1981P
Public	778.9	978.9	1,095.4	1,203.8	1,352.8	1,508.5
U.S. Government and Agencies	446.3	572.5	626.2	663.6	742.8	830.1
U.S. Government Sponsored Credit Agencies and Mortgage Pools	108.8	145.0	181.7	230.9	273.9	317.0
State and local	223.8	261.4	287.5	309.3	336.1	361.4
Private financial and non-financial	1,135.2	1,375.9	1,572.8	1,779.7	1,962.9	2,198.6
Corporate and foreign bonds	323.4	400.7	432.5	465.4	503.8	533.2
Mortgages	315.9	375.1	414.9	457.4	495.8	532.3
Other debt	495.9	600.1	725.4	856.9	963.3	1,133.1
Consumer	708.8	934.8	1,090.9	1,252.1	1,336.6	1,423.0
Home mortgages	485.6	646.0	754.5	869.4	951.6	1,011.6
Consumer credit	223.2	288.8	336.4	382.7	385.0	411.4
Total	2,622.9	3,289.6	3,759.1	4,235.6	4,652.3	5,130.1
OTHER SELECTED CLAIMS						
Security Credit	28.5	43.4	44.9	43.5	53.4	na
Trade Credit	223.6	272.2	327.3	395.7	433.5	na
Investment Company Shares	43.0	45.5	46.1	51.8	63.7	na
Other Corporate Equities	849.5	945.8	988.1	1,177.2	1,572.2	na

Source: Federal Reserve Board Flow of Funds Series.

Note: Parts may not add to totals due to rounding.

* Data are as of the end of calendar year.

P Preliminary NCFA estimate.

TABLE 15

THE CONSUMER BALANCE SHEET, SELECTED YEARS, 1975-1981

(End of period in billions of dollars)

	1975	1978	1979	1980	1981
ASSETS					
Financial Assets - Subtotal	3,521.8	4,802.7	5,470.1	6,327.9	6,629.0
Demand Deposits and Currency	170.7	229.5	252.6	268.0	287.9
Time and Savings Accounts	770.9	1,086.1	1,163.1	1,294.4	1,353.2
Money Market Fund Shares	3.7	10.8	45.2	74.4	181.9
Life Insurance and Pension Fund Reserves	532.4	729.6	809.6	949.7	1,023.6
Government Securities	220.2	278.0	333.8	357.0	403.7
Corporate and Foreign Bonds	69.0	72.8	83.3	86.9	77.8
Corporate Stock at Market Value	660.5	755.5	911.3	1,215.6	1,084.9
Equity in Noncorporate Business	1,016.4	1,504.4	1,710.7	1,918.7	2,037.7
Other Financial Assets (net)	78.0	136.0	160.5	163.2	178.3
Tangible Assets - Subtotal	1,835.1	2,777.7	3,101.4	3,465.6	3,720.4
Owner-occupied Housing	973.8	1,546.0	1,728.5	1,907.1	2,063.1
Land*	276.3	443.7	496.1	585.8	615.1
Consumer Durable Goods	585.0	788.0	876.8	972.7	1,042.2
TOTAL ASSETS (Liabilities+Net Worth)	5,356.9	7,580.4	8,571.5	9,793.5	10,349.4
LIABILITIES - Total	747.0	1,136.4	1,305.9	1,408.9	1,515.8
Home Mortgages	478.6	740.6	856.5	940.2	1,003.5
Consumer Credit	223.2	336.4	382.7	385.0	411.4
Bank Loans, Insurance Loans, etc.	45.2	59.4	66.7	83.7	100.9
NET WORTH (of Households)	4,609.9	6,444.0	7,265.6	8,384.6	8,833.6

Source: Federal Reserve Board.

Note: Parts may not add to totals due to rounding.

* The estimated value of land of the "owner-occupied housing."

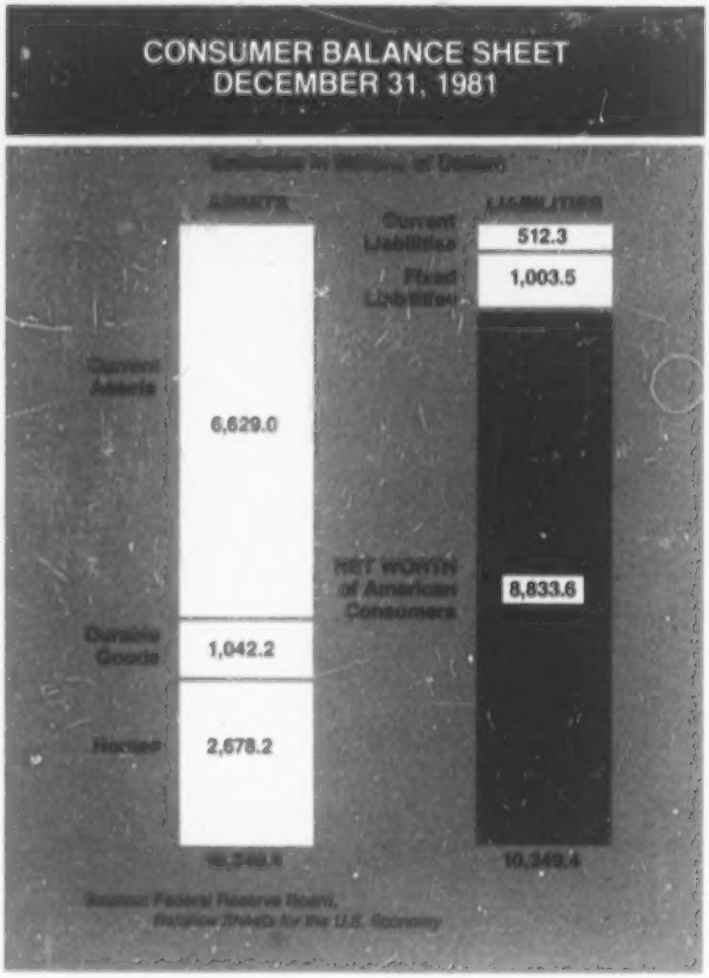
TABLE 16

CONSUMER ASSET TO DEBT RATIOS
END OF PERIOD, SELECTED YEARS, 1975-1981

	1975	1978	1979	1980	1981
Ratio of:					
Assets to debts excluding home ownership	15.3:1	14.1:1	14.1:1	15.6:1	14.8:1
Home ownership to mortgage debt	2.6:1	2.7:1	2.6:1	2.7:1	2.7:1
All assets to all debts	7.2:1	6.7:1	6.6:1	7.0:1	6.8:1
Percent of owners' equity in all assets	86.1%	85.0%	84.8%	85.6%	85.4%

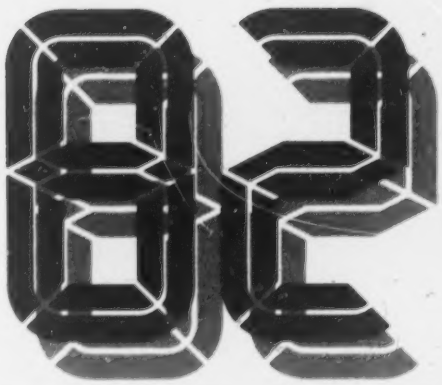
Source: Table 15.

CHART 19


CONSUMER BALANCE SHEET
DECEMBER 31, 1981
Billions of Dollars
ASSETS
LIABILITIES
Current Liabilities
512.3
Fixed Liabilities
1,003.5
Current Assets
6,629.0
NET WORTH of American Consumers
8,833.6
Durable Goods
1,042.2
Homes
2,678.2
10,349.4
10,349.4
Source: Federal Reserve Board,
Register Shield for the U.S. Economy

CHAPTER 6

CONSUMER CREDIT



Approximately 70% of household indebtedness is in the form of home mortgages (Chart 20). About 23% is in the form of installment consumer credit, defined by the Federal Reserve as "most short- and intermediate-term credit extended to individuals through regular business channels, usually to finance the purchase of consumer goods and services or to refinance debts incurred for such purposes, and scheduled to be repaid (or with the option of repaying) in two or more installments." About 5% of consumer debt is noninstallment consumer credit, that is, 30 day charge credit held by retailers, travel and entertainment companies and single-payment loans at commercial banks for consumer purposes.

Noninstallment Credit

The major categories of noninstallment consumer credit, which is generally of a convenience nature, are single payment loans generally negotiated at a commercial bank, retailers' charge accounts with balances paid in 30 days or less, and service credit which represents debts payable to hospitals, physicians, dentists, etc. At the end of 1981 noninstallment credit amounted to $78.4 billion, up from $72.2 billion at the end of 1980.

Consumer Installment Credit

At year end 1981, consumer installment credit totaled $333.4 billion up $19.9 billion from 1980. During the 1970's, the increases varied between $4.8 billion in 1970 and $43.1 billion in 1978. The increase in 1980 was only $1.5 billion (Table 17).

Of the $333.4 billion in consumer installment credit outstanding at the end of 1981, 44.8% was held by commercial banks, 26.9% by finance companies, 13.8% by credit unions, 8.9% by retailers, 3.5% by savings and loan associations, 1.3% by gasoline companies, and 0.8% by mutual savings banks (Table 17).

By type of credit, $126.4 billion, or 37.9% of installment credit outstanding at end of 1981, was for the purchase of automobiles (Table 18). Generally the automobile serves as security for installment contracts which are written by dealers and sold to banks or finance companies, or as security for auto loans made directly to consumers by banks and credit unions. Predominant in financing these purchases were the commercial banks, with $59.2 billion outstanding of which $35.1 billion was purchased paper and $24.1 billion direct loans for the purchase of automobiles. Finance companies held $45.3 billion, most of which consisted of contracts purchased by the subsidiaries of manufacturers—that is, by General Motors Acceptance Corporation (GMAC), Ford Motor Credit and Chrysler Financial Corporation. Credit unions held $22.0 billion in loans made for the purchase of automobiles.

Revolving credit outstanding amounted o $63.0 billion at the end of 1981 (18.9%

BEST AVAILABLE COPY

of the total). Commercial banks held $33.1 billion, retailers $25.5 billion and gasoline companies $4.4 billion.

Mobile home financing totaled $18.5 billion at year-end 1981 (5.6% of the total). Commercial banks held $10.3 billion, finance companies $4.5 billion, and other institutions $3.7 billion.

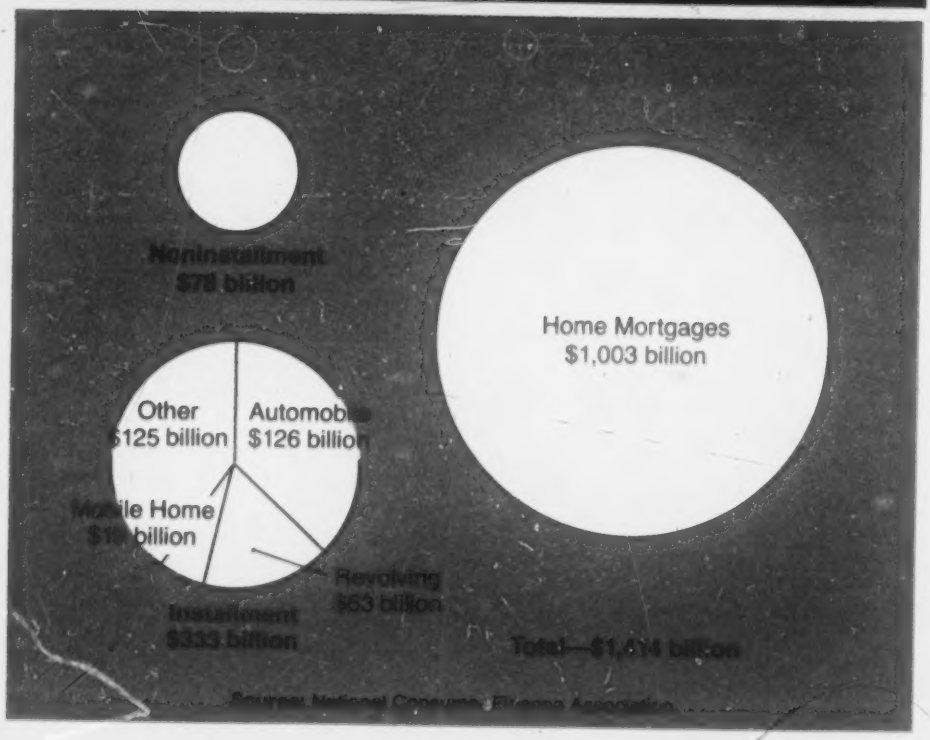
All other consumer installment financing of $125.4 billion comprised 37.6% of the total outstanding at the end of 1981. Commercial banks held $46.7 billion, finance companies $40.0 billion, and credit unions $23.5 billion. Retailers (including the wholly owned finance subsidiaries of chain stores) held $4.0 billion, savings and loan associations $8.4 billion, and mutual savings banks $2.8 billion. This "other" category includes installment contract financing of household goods such as appliances and furniture, as well as all personal loans. Table 19 shows in detail these outstandings at year end 1981 as well as the extensions and liquidations during 1981 and outstandings at year end 1980.

Credit Extensions

The total volume of consumer installment credit extended in 1981 was $336.3 billion, an increase of $30.2 billion, or 10% more than was extended in 1980.

CHART 20

TYPES OF CONSUMER INDEBTEDNESS OUTSTANDING, YEAR-END 1981



Through 1976, the dollar net change in personal outlays generally exceeded the annualized net change in consumer installment credit outstanding (both quarterly data, seasonally adjusted at annual rates). As the economy moved from recession in early 1975, the gap between net change in personal outlays and annualized net change in installment credit narrowed. As the recovery moved on, the relationship was reversed and the annualized net change in installment credit in several quarters exceeded the change in personal outlays. However, in the third quarter of 1979 the change in installment credit extensions fell below the change in

TABLE 17

CONSUMER INSTALLMENT CREDIT OUTSTANDING, EXTENSIONS, LIQUIDATIONS, AND NET CHANGE, BY HOLDER, SELECTED YEARS, 1975-1981

(In billions of dollars)

	1975	1977	1978	1979	1980	1981
Outstanding at Year End - Total	172.0	230.6	273.6	312.0	313.5	333.4
Commercial Banks	82.9	112.4	136.0	154.2	147.0	149.3
Finance Companies	36.0	44.9	54.3	68.3	76.8	89.8
Credit Unions	25.7	37.6	44.3	46.5	44.0	46.0
Retailers	18.2	23.5	26.0	28.1	28.4	29.6
Savings and Loans	4.8	7.1	7.1	8.4	9.9	11.6
Gasoline Companies	2.7	3.0	3.2	3.7	4.5	4.4
Mutual Savings Banks	1.7	2.2	2.7	2.7	2.8	2.6
Extensions During Year - Total	180.1	257.6	297.7	324.8	306.1	336.3
Commercial Banks	80.8	117.9	142.4	154.7	135.0	146.2
Finance Companies	31.2	42.0	50.5	61.5	60.8	66.3
Credit Unions	24.1	34.0	38.1	34.9	29.6	35.4
Retailers	27.3	42.2	44.6	47.7	49.9	53.4
Savings and Loans	2.8	5.0	3.7	5.9	6.6	8.1
Gasoline Companies	12.5	14.6	16.0	18.0	22.3	24.9
Mutual Savings Banks	1.5	1.9	2.3	2.0	1.9	1.9
Liquidations During Year - Total	172.6	222.1	254.6	286.4	304.6	316.4
Commercial Banks	77.9	99.3	118.8	136.6	142.1	143.9
Finance Companies	31.3	36.0	41.1	47.5	52.4	53.3
Credit Unions	20.3	27.6	31.4	32.7	32.1	33.5
Retailers	27.2	39.5	42.1	45.5	49.6	52.3
Savings and Loans	2.3	3.7	3.7	4.6	5.1	6.5
Gasoline Companies	12.4	14.5	15.8	17.5	21.5	25.5
Mutual Savings Banks	1.3	1.6	1.8	2.0	1.8	2.0
Net Change During Year - Total	7.4	35.5	43.1	38.4	1.4	19.9
Commercial Banks	2.9	18.6	23.6	18.2	(-)7.2	2.3
Finance Companies	(-)0.1	5.9	9.4	14.0	8.4	13.1
Credit Unions	3.8	6.4	6.7	2.2	(-)2.5	1.9
Retailers	0.1	2.7	2.5	2.1	0.3	1.1
Savings and Loans	0.5	1.3	---	1.3	1.5	1.7
Gasoline Companies	0.1	0.1	0.3	0.5	0.7	(-)0.1
Mutual Savings Banks	0.2	0.3	0.5	---	0.1	(-)0.1

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

TABLE 18

CONSUMER INSTALLMENT CREDIT OUTSTANDING AT YEAR END AND NET CHANGE DURING YEAR, BY TYPE, BY HOLDER, SELECTED YEARS, 1975-1981

(In billions of dollars)

	1975	1977	1978	1979	1980	1981
Outstanding at Year End - Total	172.0	230.6	273.6	312.0	313.5	333.4
Automobile	57.2	82.9	101.6	116.4	116.8	126.4
Commercial Banks	33.3	49.6	60.5	67.4	61.5	59.2
Credit Unions	12.7	18.1	21.2	22.2	21.1	22.0
Finance Companies	11.2	15.2	19.9	26.8	34.2	45.3
Revolving	15.0	39.3	48.3	56.9	58.4	63.0
Commercial Banks	12.3	18.4	24.3	29.9	29.8	33.1
Retailers	na	17.9	20.7	23.3	24.1	25.5
Gasoline Companies	2.7	3.0	3.2	3.7	4.5	4.4
Mobile Home	14.4	14.9	15.2	16.8	17.3	18.5
Commercial Banks	8.7	9.1	9.5	10.6	10.4	10.3
Finance Companies	3.4	3.1	3.2	3.4	3.7	4.5
Savings and Loans	2.1	2.3	2.1	2.3	2.7	3.2
Credit Unions	0.3	0.4	0.5	0.5	0.5	0.5
Other	85.3	93.4	108.5	121.9	121.0	125.4
Commercial Banks	28.7	35.3	41.6	46.3	45.3	46.7
Finance Companies	21.3	26.6	31.2	38.2	38.8	40.0
Credit Unions	12.7	19.1	22.7	23.8	22.5	23.5
Retailers	18.2	5.6	5.2	4.8	4.3	4.0
Savings and Loans	2.8	4.7	5.0	6.1	7.1	8.4
Mutual Savings Banks	1.7	2.2	2.7	2.7	2.8	2.8
Net Change During Year - Total	7.4	35.5	43.1	38.4	1.4	19.9
Automobile	3.0	15.2	18.7	14.7	0.5	9.6
Commercial Banks	0.5	10.0	10.9	6.9	(-)5.8	(-)2.4
Credit Unions	1.9	2.9	3.1	1.0	(-)1.2	0.9
Finance Companies	0.6	2.4	4.7	6.8	7.5	11.0
Revolving	1.3	6.2	9.0	8.6	1.4	4.7
Commercial Banks	1.2	4.0	6.0	5.5	(-)0.1	3.3
Retailers	na	2.1	2.8	2.6	0.8	1.4
Gasoline Companies	0.1	0.1	0.3	0.5	0.7	(-)0.1
Mobile Home	(-)0.2	0.4	0.4	1.6	0.5	1.2
Commercial Banks	(-)0.3	0.4	0.4	1.1	(-)0.3	(-)0.1
Finance Companies	(-)0.1	(-)0.2	0.1	0.2	0.4	0.7
Savings and Loans	0.2	0.1	(-)0.3	0.2	0.4	0.5
Credit Unions	---	0.1	0.1	---	---	---
Other	3.3	13.6	15.0	13.4	(-)1.0	4.4
Commercial Banks	1.5	4.7	6.3	4.7	(-)1.0	1.4
Finance Companies	(-)0.6	3.7	4.7	7.0	0.6	1.3
Credit Unions	1.9	3.5	3.6	1.1	(-)1.3	1.0
Retailers	0.1	0.6	(-)0.3	(-)0.4	(-)0.4	(-)0.3
Savings and Loans	0.3	1.2	0.3	1.1	1.1	1.2
Mutual Savings Banks	0.2	0.3	0.5	---	0.1	(-)0.1

Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.
na: Not available.

personal outlays where it has remained through year end 1981 (Chart 21).

Extensions of consumer credit for auto financing equalled 96% of consumer expenditures for autos during 1981 as reported by the Department of Commerce. In 1981 consumer expenditures on autos were $98.3 billion and installment credit extended for their purchase amounted to $94.4 billion.

Liquidations

The Federal Reserve reported that consumers liquidated $316.4 billion of consumer installment credit in 1981, of which $84.8 billion was for autos, $135.4 billion in revolving credit, $4.9 billion for mobile homes, and $91.3 billion in all other types of credit.

TABLE 19

CONSUMER INSTALLMENT CREDIT, BY TYPE AND HOLDER, 1981

(In millions of dollars)

	Outstanding Year-end 1980	Extensions 1981	Liquidations 1981	Outstanding Year-end 1981
Total Installment Credit	313,472	336,341	316,447	333,375
Commercial Banks	147,013	146,186	143,902	149,300
Finance Companies	76,756	66,344	53,282	89,818
Credit Unions	44,041	35,444	33,551	45,954
Retailers	28,448	53,430	52,327	29,551
Savings and Loans	9,911	8,142	6,460	11,598
Gasoline Companies	4,468	24,902	24,967	4,403
Mutual Savings Banks	2,835	1,893	1,978	2,751
Automobile	116,838	94,404	84,809	126,431
Commercial Banks	61,536	42,792	45,147	59,181
Credit Unions	21,060	18,084	17,169	21,975
Finance Companies	34,242	33,527	22,494	42,275
Revolving	58,352	140,135	135,438	63,049
Commercial Banks	29,765	67,370	64,025	33,110
Retailers	24,119	47,863	46,446	25,536
Gasoline Companies	4,468	24,902	24,967	4,403
Mobile Homes	17,322	6,028	4,867	18,486
Commercial Banks	10,371	3,106	3,180	10,300
Finance Companies	3,745	1,313	564	4,494
Savings and Loans	2,737	1,432	966	3,203
Credit Unions	469	176	156	489
Other	120,960	95,774	91,333	125,409
Commercial Banks	45,341	32,918	31,550	46,709
Finance Companies	38,769	31,504	30,224	40,049
Credit Unions	22,512	17,182	16,207	23,490
Retailers	4,329	5,567	5,881	4,015
Savings and Loans	7,174	6,710	5,493	8,395
Mutual Savings Banks	2,835	1,893	1,978	2,751

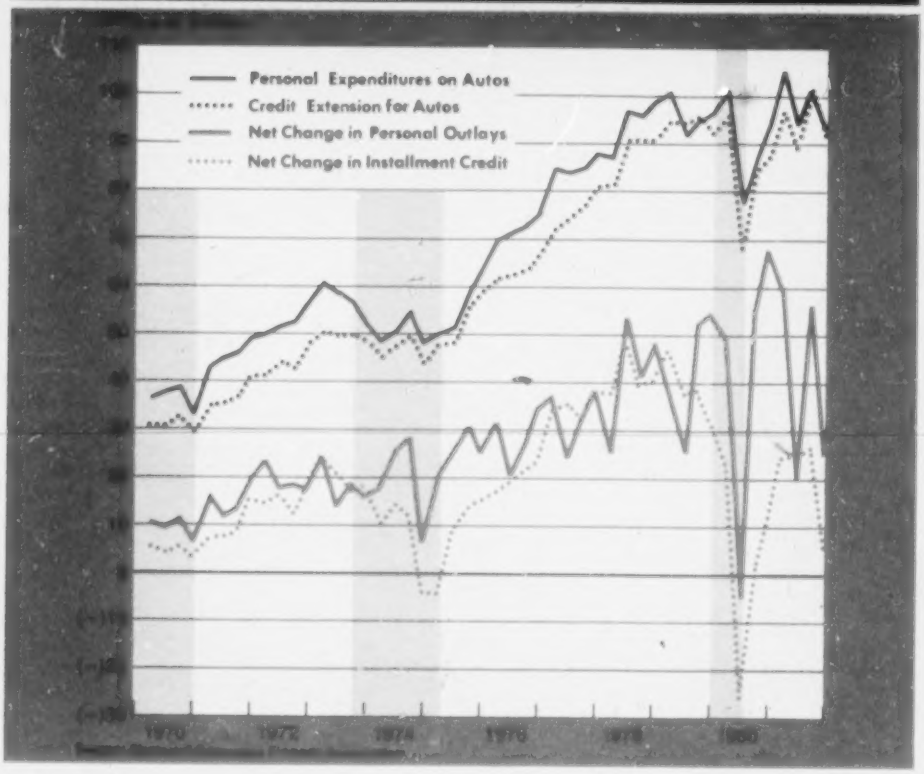
Source: Federal Reserve Board.
Note: Parts may not add to totals due to rounding.

BEST AVAILABLE COPY

CHART 21

INSTALLMENT CREDIT FOR CONSUMER FINANCING 1970-1981

(Quarterly Data—Seasonally Adjusted at Annual Rates)


Personal Expenditures on Autos
Credit Extension for Autos
Net Change in Personal Outlays
Net Change in Installment Credit

Debt liquidations in 1981 were equivalent to 15.8% of disposable personal income. Commonly used as a measure of the ability and willingness of consumers to incur more debt, this repayment ratio has varied since 1970 between a low of 15.2% in the fourth quarter of 1981 to a high of 17.8% in the third quarter of 1978 (Chart 22).

Debt liquidations as a percent of the previous year end outstandings reflect many factors including changes in maturities of contracts, changes in balances on revolving credit, and inflation. Though not a precise measure, when their ratio is low, the following year tends to have a relatively small change in outstandings. Conversely, when the ratio is high, the following year generally shows a relatively large change in outstandings. During the 1970's this ratio varied between 105% (in 1974 and 1975) and 121% in 1971. At 101% in 1981, it increased 3% over 1980's ratio of 98%.

Rates of Charge

Rates charged by finance companies on purchased retail automobile paper in November 1981 averaged 16.55% for new cars (up from 15.25% in November 1980) and 20.48% for used cars (up from 19.36% in November 1980). Though no comparable figures are available for commercial banks, their rates on purchased paper were probably about the same as

BEST AVAILABLE COPY

those of finance companies. The most frequent rate charged on direct loans by banks to consumers to finance new automobiles over a 36 month period in November 1981 was 17.36%.

The average rate charged by finance companies on mobile home contracts during November 1981 was 19.22% (up from 15.98% in November 1980), and the most common rate for mobile homes by banks in November 1981 was 18.29%, up from 15.49% in November 1980.

Average rates for personal cash loans made for a variety of consumer purposes including consolidation of existing debts, are not available in detail. However, during November 1981 the most common effective rate charged by commercial banks on 24 month installment loans was 19.21%, up from 15.54% in November 1980. Major finance companies were charging an overall average of 22.94% (21.48% in November 1980) for loans of various sizes and maturities (excluding second mortgage loans) with an average of $2,677 as the amount financed. Rates of charge for consumer financing by credit unions to their members in 1981 are not generally available. Federal credit unions were allowed by regulation to charge a maximum of 21% as of December 3, 1980.

Major finance companies were charging an average of 22.95% on non-auto installment credit contracts purchased in November 1981, up from 20.94% in November 1980. It is probable that rates of charge by retailers, including the wholly owned finance subsidiaries of chain stores, were about the same, where permitted by law. Most of the financing by retailers was, however, in the form of revolving credit at rates probably approximating the rate on bank credit cards which averaged 18.04% in November 1981, up from 17.41% in November 1980.

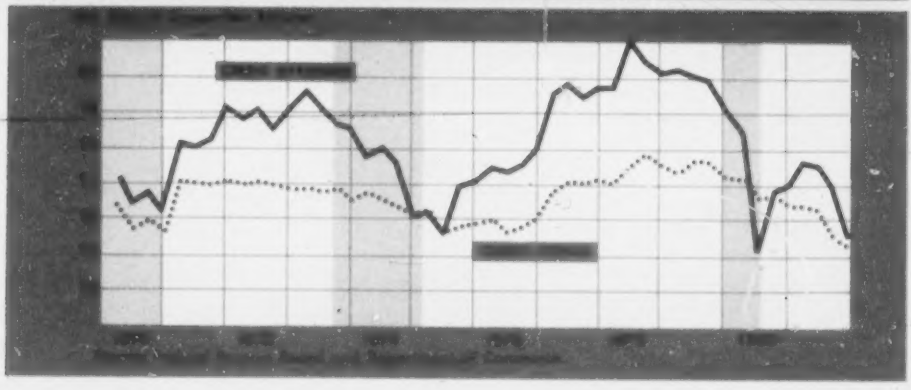
Survey of Consumer Finances

Studies of the Survey Research Center of The University of Michigan provided detailed information on the characteristics of borrowers until the surveys were discontinued in 1971. In 1976, the Board of Governors of the Federal Reserve System authorized a detailed survey of consumers' views on credit. The interview questionnaire for this survey probed two significant aspects of consumer credit. First, it explored use by consumers of different types of credit, updating the *Surveys of Consumer Finances* undertaken by the Survey Research Center between 1946 and 1971. Second, it measured con-

CHART 22

RATIO OF CONSUMER INSTALLMENT CREDIT TO DISPOSABLE PERSONAL INCOME, 1970-1981

(Seasonally Adjusted Quarterly Totals at Annual Rates)



sumers' awareness, understanding, attitudes, and behavior regarding credit and its regulation, a largely unresearched area. Published by the Federal Reserve as the 1977 *Consumer Credit Survey*, the report examines the lines of direct and indirect questioning used to gather information about the variables, as well as the responses obtained. Chapters 2 and 10 examine the responses to questions on consumer credit protection legislation. Chapters 11 to 21 review consumers' income, assets, debts, and housing; they also update many of the tables from the earlier *Surveys of Consumer Finances*.

Incidence of Consumer Credit Usage

The Federal Reserve survey conducted in 1977 revealed that 46.5% of all families owed no consumer installment debt. Over one-quarter of all families (26.7%) had installment debt payments (excluding home mortgages and credit cards) of less than 10% of family income; 15.6% had payments of 10-19% and 7.2% of 20% or more (Table 20).

The Federal Reserve study shows the level of commitment for debt repayment by age groups of the family head. For example, 42.1% of the families where the family head was under 25 had 10% or more of their disposable income committed to repayment of installment credit. This percentage dropped to 30% for the 25 to 34 year age group, 24.2% for the 35 to 44, 21.8% for the 45 to 54, and 17.6% for the 55 to 64 year age groups. By contrast, 9.1% of those in the 65 to 74 year age group, and 2.4% of those 75 years of age and over had 10% or more of their di-

TABLE 20

ANNUAL INSTALLMENT DEBT PAYMENTS TO PREVIOUS YEAR'S FAMILY INCOME*

(In percent of families)

		Annual Installment Debt Payments (Percent of family income)				
	No Debt	Less than 10 %	10 % to 19 %	20 % to 39 %	40 % and more	Not Ascertained
All Families	46.5	26.7	15.6	6.2	1.0	3.8
Age of Family Head (years)						
Under 25	34.9	16.4	25.2	13.5	3.4	6.3
25-34	21.1	36.0	21.4	7.6	1.0	3.1
35-44	32.4	37.8	16.9	6.0	1.3	5.5
45-54	42.0	30.7	14.6	6.4	0.8	5.2
55-64	55.6	24.0	11.9	5.1	0.6	2.8
65-74	82.2	7.0	6.6	1.7	0.8	1.7
75 and over	94.9	1.6	1.6	0.8	---	0.8
Family Income (dollars)						
Less than 3,000	79.7	4.5	1.3	3.8	5.1	5.6
3,000-4,999	69.2	7.1	7.6	9.2	4.3	2.7
5,000-7,499	59.0	13.1	13.5	10.8	1.4	2.3
7,500-9,999	44.3	21.0	20.1	8.2	1.4	5.1
10,000-14,999	41.9	22.2	23.8	8.7	0.4	2.9
15,000-19,999	34.2	34.8	22.9	4.7	---	3.5
20,000-24,999	31.7	42.4	16.4	4.6	---	5.0
25,000 and more	41.7	43.3	7.8	1.6	---	5.7

Source: Federal Reserve 1977 Consumer Credit Survey, Table 19-4.
Note: Parts may not add to totals due to rounding.
* Ratio of August or September 1977 payments to 1976 monthly income, excluding home mortgages and credit cards.

posable income in 1977 committed to repayment of installment credit.

Repayments as a percent of disposable income vary by income level of spending unit. For the low income levels under $3,000, 79.7% had no installment payments in mid-1977 and another 4.5% had payments of under 10% of disposable income. Among those having income of $25,000 and over, 41.7% had no installment payments and 43.3% had payments of less than 10% of disposable income. Families with incomes of $15,000 to $24,999 seem to have been the most likely to be credit users as shown by the fact that over 65% of these families owed some installment credit in 1977. Families committed to installment payments of 20% or more of income comprised the largest percentage in the $3,000—$7,499 groups. Each of these income groupings would, of course, be somewhat different today as a result of inflation since 1977.

Credit card usage increased from 50% of all families in 1970 to 59.8% in 1977 (Table 21). All age groups, except the families headed by a person under 25 years of age (down from 42.0% to 38.7%), increased their usage of credit cards.

Statistics on the extent of the usage of real property as security for personal expenditures are not generally available. Some information on the uses of funds obtained, the sources of funds, and the size of second mortgage extensions is shown in Table 22.

TABLE 21

DISTRIBUTION OF FAMILIES REPORTING INSTALLMENT DEBT AND USE OF CREDIT CARDS, 1970 AND 1977

(Percent of families)

	With Installment Debt*		Using Credit Cards	
	1970	1977	1970	1977
All Families	49	53.5	50	59.8
Age of Family Head (years)				
Under 25	59	65.1	42	38.7
25-34	67	68.9	61	64.6
35-44	63	67.6	57	72.4
45-54	56	58.0	60	68.4
55-64	36	44.4	46	61.1
65-74	14	17.8	37	48.7
75 and over	6	5.1	20	33.5
Family Income (dollars)				
Less than 3,000	19	20.3	na	22.2
3,000-4,999	31	30.8	na	23.8
5,000-7,499	52	41.0	na	33.3
7,500-9,999	61	55.7	na	48.9
10,000-14,999	65	58.1	na	62.6
15,000-19,999	49**	65.8	na	72.8
20,000-24,999	na	68.3	na	82.1
25,000 and more	na	58.3	na	90.2

Source: Federal Reserve 1977 Consumer Credit Survey.

Note: Parts may not add to totals due to rounding.

* Excluding home mortgages and credit cards.
** $15,000 and more in 1970.

Personal Bankruptcies

Personal bankruptcies are always a concern to credit grantors, the legal profession, legislators and social workers alike. The unprecedented rise in nonbusiness bankruptcies following the implementation of the new federal bankruptcy code on October 1, 1979 has given rise to even greater concern about the effect on the consumer credit markets in the future.

According to the Bankruptcy Divisions, Administrative Office, U.S. Courts, 452,660 individuals commenced bankruptcy proceedings in calendar year 1981, up from 409,726 during the same year earlier period.

While a part of the increase reflected an increase in the number of individuals in financial distress, there is little doubt that other factors were also at work, including the ability of the debtor to retain more assets than he could under the previous law, and his ability more frequently to enter a "wage-earner" plan where in some cases he pays off only a nominal portion of the debt over several years. The bankruptcy law has been subject in the past to differing interpretations in different districts and this situation has worsened with the new code. Thus, while the number of bankruptcies has at times in the past been used as a guide to the overuse of credit, it recently has become much less of a guide than previously.

TABLE 22

LOANS SECURED BY REAL ESTATE OTHER THAN FIRST MORTGAGES—NONFARM HOMEOWNING FAMILIES, 1977

(In percent of number responding)

Uses of Funds Obtained	100.0
Downpayment	10.3
Appliances, durable goods	2.8
Additions or repairs to house	30.8
Automobiles	7.5
Other debts or expenses (bills, taxes, medical, educations and other)	39.3
Not ascertained	9.3
Sources of Funds	100.0
Bank	30.4
Savings and loan/savings bank	9.8
Individual	12.8
Government agency	2.9
Other (mostly finance companies)	26.5
Dealer contractor	3.9
Credit union	4.9
Not ascertained	8.8
Size of Second Mortgage Extension	100.0
$1,000 and less	1.6
$1,001-$2,500	7.8
$2,501-$5,000	25.0
More than $5,000	56.2
Not ascertained	9.4
Memorandum	
Percent of families owning home	64.5%
Percent of homeowners with first mortgages	61.7%
Percent of homeowners with loans secured by other than first mortgages	5.8%

Source: Federal Reserve 1977 Consumer Credit Survey.

CHAPTER 7

THE CONSUMER FINANCE INDUSTRY

Definition

The consumer finance industry is defined to include those corporations, partnerships or proprietorships whose primary purpose is to finance the consumer. This financing is done through direct cash loans or through the purchase of installment sales paper from dealers or retailers when consumers buy automobiles or other goods on time. During the last half of the 1970's and into the 1980's, personal loans secured by second mortgages became a major component of this financing. Open-end, or revolving credit, also expanded during this period, though to a limited extent.

The institutions specializing in this business are generally known as consumer finance companies, sales finance companies, industrial banks and industrial loan companies. These companies at the end of 1981 held $89.8 billion installment credit outstanding, including $33.3 billion in personal loans, $45.3 billion in automobile financing, $4.5 billion in mobile home financing, and $6.7 billion in the financing of other consumer goods and home improvements. These consumer financial services are carried out in some 20,000 offices throughout the United States.

Many institutions are involved in credit financing for consumer purchases of goods and services. Many commercial banks have two departments, one of which specializes in personal installment loans and another which is responsible for credit card operations. Most savings and loan associations and mutual savings banks offer some form of personal loan as an adjunct to their major role of financing homes, and credit unions have as one major function the granting of loans to members. Each of these institutions also has a collateral role—that of accepting time and/or savings deposits as the major source of funds available for lending purposes. While retail outlets make credit available as a convenience to their customers, finance companies are the only institution whose primary role is to make installment credit available to consumers.

Accordingly, retailers as a group, and most financial intermediaries, including commercial banks, savings and loan associations, and credit unions, which have the dual purpose of receiving funds from savers and lending to borrowers, are not included in the following discussion of the finance industry. Finance company subsidiaries of bank holding companies, insurance holding companies, and other holding companies are included.

Industrial banking companies or Morris Plan companies (known also as "thrifts" or industrial loan companies) which operate in 20 states, are permitted to, and some do, accept customer savings deposits or issue thrift certificates. These institutions in a real sense are depository financial institutions but they are grouped with finance companies in the finance in-

dustry because their charters are most frequently held by subsidiaries of finance companies. In many instances industrial banking companies have been operated solely as lending institutions. However, as the need for a deposit vehicle developed with the evolution of electronic fund transfers, and as consumer savings became a more attractive source of funds, more and more industrial banking companies have turned to the issuance of certificates or acceptance of deposits

Size and Ownership

Finance companies vary in size and ownership from the one office independently owned and operated to the large chain companies which operate hundreds of offices across the country. Some medium-size and large companies are independently owned, others are subsidiaries of manufacturers, bank holding companies, insurance companies, or conglomerate firms. Alternatively, some companies in the industry have insurance and retail subsidiaries, some offer commercial financing, some have manufacturing subsidiaries, some have subsidiaries which operate in Canada and some Europe, Australia and Asia.

Long-Term Trends

Until well into the 1960's, finance companies were generally highly specialized and could be distinguished as consumer finance companies, sales finance companies or commercial finance companies. By 1970, wholly owned subsidiaries of manufacturers predominated the auto financing business. Few independent sales finance companies were in operation by the early 1970's, most having shifted much of their business to personal loans. During the same period, commercial finance companies were becoming subsidiaries of other finance companies. Diversified giants from outside the industry recognized finance companies as well-managed profit centers and many were acquired. The passage of the Bank Holding Company Act amendments of 1970 provided the legal basis for bank holding companies to increase their acquisitions of finance companies.

By the late 1970's, most large and medium-size, and many small finance companies were highly diversified, both as to lending operations and sources of funds.

Table 23 shows the trends in consumer financing and business financing by fi-

TABLE 23

RECEIVABLES OUTSTANDING AT FINANCE COMPANIES, BY TYPE, SELECTED YEARS, 1975-1981

(In billions of dollars)

	1975	1977	1978	1979	1980	1981
Receivables Outstanding						
Total	75.3	100.0	117.6	138.6	149.0	170.8
Consumer Credit - Total	36.0	44.9	54.3	68.3	76.8	89.8
Automobile	11.2	15.2	19.9	26.8	34.2	45.3
Mobile Home	3.4	3.1	3.2	3.4	3.7	4.5
Personal Loans	17.3	21.2	24.8	30.6	31.6	33.3
Other	4.1	5.3	6.4	7.6	7.2	6.7
Business Credit - Total	39.3	55.1	63.3	70.3	72.3	81.0
Automobile	14.5	24.0	27.3	29.1	24.6	24.5
Other than Automobile	24.8	31.1	36.1	41.3	47.7	56.5

Source: Federal Reserve Board
Note: Parts may not add to totals due to rounding.

nance companies since 1975. At the end of 1981, consumer receivables constituted 53% of the $170.8 billion in receivables. Business credit in the amount of $81.0 billion constituted 47%.

During the first half of the 1970's, the percentage of the total consumer installment credit held by finance companies declined from 26.1% at the end of 1970 to less than 20% in the mid-1970's. This declining trend was reversed in 1978. At year end 1981 finance companies held 26.9%, up from 24.5% in 1980 and 21.9% in 1979. This reversal reflects the entry of finance companies into new markets, especially large loans secured by real property, and to a less extent open-end credit.

TABLE 24

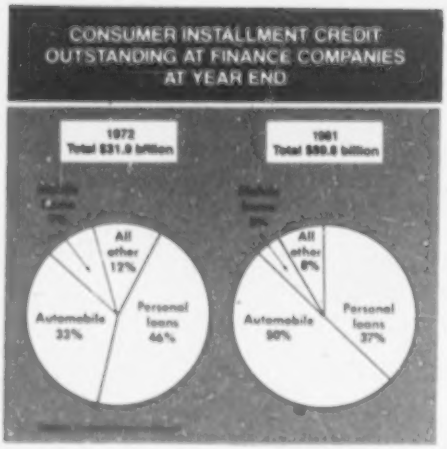
CONSUMER INSTALLMENT CREDIT AT FINANCE COMPANIES
SELECTED YEARS, 1975-1981

(In millions of dollars)

	Total	Personal Loans	Automobile	Mobile Home	All Other
Outstanding (end of period)					
1975	35,995	17,267	11,214	3,445	4,069
1976	38,919	18,537	12,848	3,263	4,271
1977	44,868	21,239	15,235	3,077	5,317
1978	54,298	24,780	19,937	3,152	6,429
1979	68,318	30,594	26,751	3,390	7,583
1980	76,756	31,573	34,242	3,745	7,196
1981	89,818	33,300	45,275	4,494	6,749
Extensions					
1975	31,183	17,008	9,642	767	3,766
1976	36,129	19,766	11,169	702	4,492
1977	41,989	22,595	12,662	643	6,089
1978	50,505	25,880	16,473	886	7,266
1979	61,518	29,892	22,950	797	7,879
1980	60,801	27,188	27,051	898	5,664
1981	66,344	26,151	33,527	1,313	5,353
Liquidations					
1975	31,265	16,726	9,051	843	4,645
1976	33,183	18,496	9,535	884	4,268
1977	36,041	19,893	10,275	832	5,041
1978	41,075	22,339	11,771	812	6,153
1979	47,498	24,078	16,136	559	6,725
1980	52,363	26,209	19,560	543	6,051
1981	53,282	24,424	22,494	564	5,800
Net Change					
1975	- 82	282	591	- 76	- 879
1976	2,946	1,270	1,634	- 182	224
1977	5,948	2,702	2,387	- 189	1,048
1978	9,430	3,541	4,702	74	1,112
1979	14,020	5,814	6,814	238	1,154
1980	8,438	979	7,491	355	- 387
1981	13,062	1,727	11,033	749	- 447

Source: Federal Reserve Board and National Consumer Finance Association.
Note: Parts may not add to totals due to rounding.

CHART 23



Types of Consumer Finance Business

At the end of 1981, the $89.8 billion in consumer installment credit held by finance companies consisted of $33.3 billion in personal loans (37%), $45.3 billion in retail automobile paper (50%), $4.5 billion in mobile homes (5%), and $6.7 billion in other forms of consumer installment credit (8%). (Table 24 and Chart 23). The vast majority of finance companies now offer a diversity of these consumer credit services.

Though most finance companies and industrial banking companies now in operation had their early beginnings in the direct cash loan field, many started in the retail sales financing business. Most subsequently added the other services as a means of providing a more rounded and complete service for existing customers and in some cases as a means of attracting new customers to their offices.

The financing of automobiles and other consumer durable goods, the speciality of the sales finance company, is frequently a marginal profit activity, nearly always requiring high volume for success. Particularly in the financing of relatively small purchases, the total financing charge barely covers the cost of putting the account on the books, and is inadequate to cover the cost of servicing over a period of months or years.

Revolving or open-end consumer credit has been growing but it is still not a major element for most finance companies partially because of restrictive legislation. However, with the increasing application of electronic fund transfers, more companies are showing an interest in expanding this type of service. From a limited sample of companies that reported to NCFA's survey, it may be estimated that $1.3 billion was outstanding at the end of 1980, up from somewhat over $1.1 billion at the end of 1979.

Financing Automobiles and Other Goods

As automobile manufacturers and other manufacturers expanded the operations of their finance company subsidiaries, and as retail chains established their own finance company subsidiaries, the market for the independent sales finance companies declined. In the 1970's, the commercial banks and credit unions also entered strongly into the field of automobile financing. However, in 1979, 1980 and 1981, alternative markets for commercial bank lending and shortages of funds for credit unions shifted the financing of automobiles toward finance companies. The shift is reflected in Federal Reserve statistics that show that finance companies held 36% of this market at the end of 1981, up from 29% at the end of 1980. For the same period, banks were down from 53% to 47%, and credit unions from 18% to 17%. The $45.3 billion at the end of 1981, up from $34.2 billion at the end of 1980, was held mainly by the subsidiaries of automobile manufacturers. Most independent finance companies do a very limited amount of automobile financing and are in the direct cash loan field, or in many cases in commercial financing.

Financing the purchase of mobile homes is a part of the operation of some finance companies though less substantial than a few years ago. At the end of 1981 this type of receivable at $4.5 billion was up from $3.7 billion at the end of 1980.

The medium of a limited retail sales financing service has provided the consumer finance company with an opportunity to attract new customers to the use of direct loan services. Traditionally the customer (buyer) entered into a contract, for example, to buy a refrigerator from a dealer (seller) who, in turn, discounted the paper with the finance company by assigning it (endorsing the contract) to the finance company. The customer (buyer) would make his monthly payments to the finance company under the same terms and conditions as his contract with the seller. In this transaction, the finance company gained a customer to whom it would then offer its direct loan services as the customer proved his creditworthiness by the manner in which he made his payments on the refrigerator. The customer established a credit relationship with the finance company which he could then draw on at a time when he needed cash credit. With the expanded use of revolving credit in the 1970's, finance companies retained part of this sales finance service through the use of credit cards or private label financing. Including somewhat over $1 billion of this type, the financing of other goods amount to $6.7 billion at the end of 1981, down from $7.2 billion at the end of 1980.

Personal Cash Loans

A large segment of finance company outstandings is in the form of personal loans, some secured by goods, real estate, or other collateral, others unsecured, including a small amount in open-end loans. Finance company outstandings of personal loans at the end of 1981 as reported by the Federal Reserve stood at $33.3 billion, up from $31.6 billion at the end of 1980.

Second mortgage lending, that is, loans secured by real estate, has become a major part of the finance company cash loans outstanding. At the end of 1980, NCFA estimates indicate that 52% ($16.4 billion) of the $31.6 billion in cash loans as reported by the Federal Reserve was in loans secured in whole or in part by second mortgages.

Size and Number of Loans and Contracts

According to surveys by the National Consumer Finance Association the average size personal loan made in 1980 was $2,102. As of year end 1980, the personal loan accounts on the books of finance companies indicated an average amount outstanding of $1,745 per account (Chart 24). (This excludes interest charges which may at times appear on the face of the note.) If unearned charges are included, the average size loan outstanding approximated $2,134 at year end 1980 which included both second mortgage and other personal loans.

A sample of 48 companies which operated nearly 10,000 offices and which provided sufficient detail in their responses to the NCFA annual questionnaire, showed 610,882 loans outstanding in the amount of $8.9 billion secured by second mortgages and 7,338,651 other personal loans in the amount of $8.2 billion. This sample suggests that the average second mortgage loan outstanding at year end 1980 was about $14,601 and the average for other personal loans was $1,118.

Reports by the Federal Reserve suggest that the average amount financed by finance company loans (excluding second mortgage loans) in 1981 was approximately $2,574. Excluded from this average figure are finance charges, but other charges such as credit insurance are included in most cases.

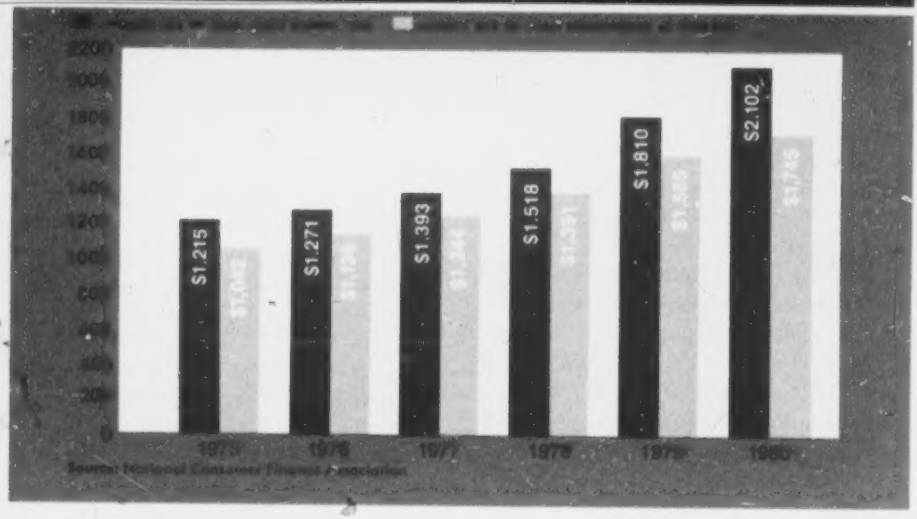
Two factors generally control the size of loans made by finance companies. The maximum loan permitted—the loan ceiling—sets an upper limit to the size of loan. In this case, State legislation is the determinant. The maximum loan size under small loan laws and industrial banking laws has been increased in recent years in a number of states. A number of states also have general usury laws or specific second mortgage laws permitting rates of charge sufficient to offer finance companies an opportunity to make larger installment loans.

The second factor controlling the size of loans stems from the interplay between

BEST AVAILABLE COPY

CHART 24

AVERAGE LOAN SIZE, FINANCE COMPANIES
SELECTED YEARS 1975-1980



the maximum authorized rates and the market for loans of various sizes. Finance companies generally try to offer a full loan service, that is, they try to serve consumers who need small loans, as well as those who need other amounts up to the maximum size permitted by law. However, the yield on small loans is considerably below the unit cost of operation. It is economically impossible for any institution to have a very large proportion of loans outstanding in the form of very small loans. Rising consumer prices, however, have reduced the consumer demand for these very small loans with the result that most finance companies are able to serve the needs of most of their customers.

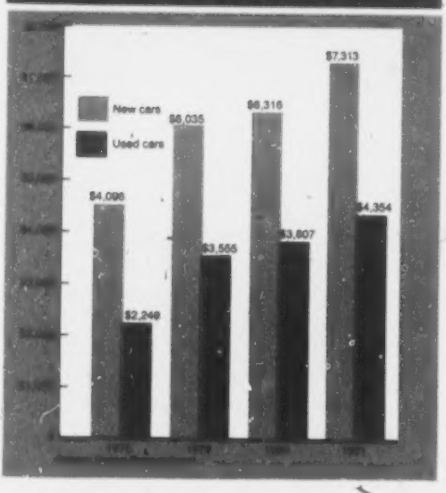
Automobile finance contracts on the average are much larger than personal loans. Federal Reserve data reveal that the average amount financed on new automobiles (excluding precomputed charges) increased from $6,316 in 1980 to $7,313 in 1981 (Chart 25). For used cars, the amount financed by finance companies increased from $3,807 in 1980 to $4,354 in 1981.

Rates of Charge

Laws governing the maximum rates that consumer installment credit companies may charge are in effect determined

CHART 25

AMOUNT FINANCED ON AUTOMOBILES
BY FINANCE COMPANIES



by each state. Rates of charge permitted differ for new and used automobile financing, other goods financing, for cash loans, and for open-end credit. The rates quoted in this section are annual percentage rates (APR), calculated in the manner prescribed by the Truth in Lending Law.

Rates of charge for cash loans generally vary from 36% annually on the smallest to 18% on larger well secured loans. Federal Reserve data reveal that finance companies charged an overall average rate of 21.7% on loans made in 1981 (Table 25).

In general, large ticket items, such as automobiles which have a resale value, are subject to financing at lower rates. Exact details are not available, but the rates

TABLE 25

FINANCE RATES, MATURITIES, AND AVERAGE AMOUNT FINANCED BY FINANCE COMPANIES, SELECTED YEARS, 1975-1981

	1975	1977	1978	1979	1980	1981
Average Finance Rates*						
Personal loans	21.0%	20.5%	20.5%	20.5%	21.1%	21.7%
Automobiles						
New	13.1%	13.1%	13.1%	13.5%	14.8%	15.9%
Used	17.6%	17.6%	17.6%	18.0%	19.1%	20.0%
Mobile homes	13.6%	13.6%	13.4%	13.6%	15.5%	18.1%
Other consumer goods	19.8%	19.2%	19.0%	19.1%	20.6%	21.6%
Average Maturities*						
Personal loans in months	36.3	42.9	45.8	50.5	63.8	71.1
Automobiles - percent						
New - Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% over 42 months	--	26.4	45.3	59.2	68.3	74.9
% 37 to 42 months	23.6**	21.2	16.9	11.0	7.4	4.5
% 31 to 36 months	65.3	40.4	27.3	21.1	16.9	13.9
% 30 months or less	11.2	11.9	10.5	8.7	7.4	6.6
% balloon	0.1	--	--	--	--	--
Used - Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% over 36 months	--	8.7	21.9	40.8	49.0	57.5
% 31 to 36 months	54.2	57.3	43.5	43.5	36.4	31.4
% 25 to 30 months	31.1	23.6	19.7	8.5	6.3	4.1
% 24 months or less	14.7	10.4	14.9	7.2	8.3	7.1
% balloon	--	--	--	--	--	--
Mobile homes	121.0	126.9	130.8	133.4	137.2	154.1
Other consumer goods	21.1	23.6	25.8	25.4	24.5	28.7
Average Amount Financed*						
Personal loans	$1,260	$1,521	$1,572	$ 1,684	$ 1,975	$ 2,574
Automobiles						
New	$4,096	$4,990	$5,590	$ 6,035	$ 6,316	$ 7,313
Used	$2,249	$2,720	$3,168	$ 3,555	$ 3,807	$ 4,354
Mobile homes	$7,686	$9,174	$9,999	$11,617	$12,807	$14,625
Other consumer goods	$ 464	$ 563	$ 605	$ 600	$ 624	$ 833

Source: Federal Reserve Board
Note: Parts may not add to totals due to rounding.

* Unweighted means of periodic sample data for each year. Average amount financed excludes precomputed finance charges.
** Over 36 months

for financing automobiles probably vary between about 14% annual percentage rate to 24% or 30% for autos depending on age and condition. According to Federal Reserve surveys, the average customer annual rate for new autos financed by finance companies in 1981 was 15.9% and for used autos 20.0%. Finance company rates for mobile homes averaged 18.1% in 1981.

Financing of consumer goods other than autos and mobile homes, items of less cost and usually not resaleable, probably costs between 17% and 30% at annual rates. The average finance rate charged by finance companies in 1981 was 21.6% for such goods.

Types of Rate Quotation

Various types of rate quotation were permitted (or required) by states prior to the Truth in Lending Act. Illustrative were two types of rate quotation on small loans. Both types lumped all finance charges into a single rate although additional charges were permitted (and regulated) in most states to cover the cost of insurance when the borrower desired such coverage. Both forms also permitted the borrower to repay his loan without penalty at any time before the contract matured.

The older form of rate quotation was the percent per month of the unpaid balance. Illinois' small loan law, for example, is of this type as follows: 2½% per month on the first $300 outstanding, 2% per month on the amount between $300 and $600 outstanding, and 1½% per month on the amount between $600 and $3,000 outstanding. Applying these rates, a $1,000 loan repaid in 12 equal monthly installments of $95.36 would cost the borrower $144.32 in interest or 25.67% APR.

Many states also adopted a form of rate quotation for small loans similar to that frequently used by commercial banks in making consumer installment loans. This form of quotation is referred to as add-on, that is, a certain number of dollars is added to the contract to be repaid. Ohio's small loan law is an example of this type—$16 per $100 per year up to $750, $11 per hundred per year on the amount between $750 and $1,500, and $9 per year on the amount between $1,500 and $3,000. In this case, a loan of $1,000 repaid in 12 monthly installments of $95.62 each would cost the borrower $147.44 in interest or at the rate of 26.18% annually. For larger loans, the annual percentage rate is lower. For example, the finance charge for a loan of $4,000 in Colorado under the Uniform Consumer Credit Code is $433.04, the total $4,433.04 repayable in 12 monthly installments of $369.42 each at an annual percentage rate of 19.42%

Terms of Finance Contracts

The maximum length of the loan or sales finance contract is limited by the applicable legislation or regulation in each state. However, company policy may result in restricting maturities to a shorter term than that permitted by law.

Federal Reserve data reveal that in November 1981 new auto contracts written by major finance companies average 45.3 months, up from 44.8 months in November 1980. For the year 1981, 13.9% were for 31 to 36 months; 6.6% were for 30 months or less. However, the contracts written in excess of 36 months—79.4% in 1981 were up from 75.7% in 1980. Used car contracts in November 1981 had average maturities of 35.7 months, up from 34.4 months in November 1980. Of the used auto contracts in 1981, 88.9% were for over 30 months, 4.1% for 25 to 30 months, and 7.1% for 24 months or less.

Federal Reserve data indicate that the average maturity for cash loans made by large finance companies in 1981 approximated 60.3 months, down from 63.8 months in 1980. Mobile home loans averaged 159.7 months in 1981 and other goods financing 27.7 months.

Consumer Borrowers

Most of the information for this and the following sections on assets, liabilities and income was obtained from National

Consumer Finance Association surveys of which the latest data available is for the year 1980.

Traditionally, character of the borrower has been the significant consideration in loans made by finance companies, though increasing emphasis is being placed on real security in recent years. Except in the case of the large loans, security in the form of tangible personal property frequently has little market value. But to the borrower it may have considerable subjective value and his willingness to use it as security establishes evidence of his good faith. Reports of State supervisory authorities show that consumer finance companies seldom take possession of security on small loans. The proportion of unsecured loans, that is, loans based on the borrower's signature, in 1978 was 22% and in 1980 (the latest year for which data is available) was about 31% as larger loans were increasingly made by finance companies (Table 26). Since these estimates are derived from the reports on consumer finance laws, the loans of finance companies secured by real estate are understated. Statistics are not generally available on second mortgage lending.

Consumers use the money borrowed from finance institutions and industrial banks to consolidate and refinance existing obligations (Table 27). It appears from the data that the entry of second mortgage lending tended to reduce the consolidation loans from 28% in 1977 to 21% in 1979. They also borrow for various current purposes as well as to purchase automobiles and other durables. Still other consumers borrow so that they will not need to disturb equities in insurance, in the home, and in other assets. They borrow to pay for travel, vacations and educational expense. This latter category seems to have taken on greater significance between 1977 (8%) and 1979 (19%).

The average borrower from a finance company is a skilled or semiskilled

TABLE 26

PERCENT DISTRIBUTION OF NUMBER OF LOANS EXTENDED BY SECURITY, SELECTED YEARS, 1971-1980*

	1971	1974	1976	1978	1980
Automobiles, household goods and other chattels	63.2	60.7	62.1	60.3	57.2
Unsecured notes	24.0	24.6	19.6	21.9	30.6
Endorsed and/or co-maker loans	2.0	2.0	4.4	1.5	2.7
Wage assignments	5.3	6.7	3.6	4.0	1.0
Real estate	1.0	1.4	3.1	4.2	4.0
Other considerations	4.5	4.6	7.2	8.1	4.5
Total	100.0	100.0	100.0	100.0	100.0

Source: National Consumer Finance Association.
Note: Parts may not add to totals due to rounding.

* Distribution calculated from a summation of available data from State supervisory reports of lending under small loan and other consumer finance laws. Most often second mortgage loans are made under separate sections of lending codes that do not require reporting of numbers of loans to state administrators; however, the majority of second mortgage loans are excluded from this table. More information on second mortgages may be found in NCFA's Research Report on Second Mortgage Lending.

The total number of states included in this table are: twenty-eight in 1971, twenty-six in 1974, twenty-seven in 1976, twenty-one in 1978, and nineteen in 1980.

TABLE 27

DISTRIBUTION OF THE NUMBER OF LOANS EXTENDED BY PURPOSE, SELECTED YEARS, 1971-1979

	(In percent)				
	1971	1973	1975	1977	1979
Purpose					
To consolidate existing bills	46	33	31	28	21
Travel, vacation, education expenses	7	6	7	8	19
Automobile purchase or repair	10	14	14	13	13
Home furnishings and appliances	3	4	4	5	5
Household repairs	4	4	5	7	5
All other purposes	30	39	39	39	37
Total	100	100	100	100	100

Source: National Consumer Finance Association survey data for 1971 from companies which operated 4,389 offices, for 1973 from companies that operated 5,959 offices, for 1975 from companies that operated 4,863 offices, for 1977 from companies that operated 5,114 offices, and for 1979 from companies that operated 8,317 offices.

worker, has an average income of over $20,000 a year, has acquired some material goods, has at least some liquid assets at his disposal, is most frequently married, under 45 years of age and frequently owns his own home.

In 1980, the percentage of borrowers from finance companies was significantly greater in the income brackets $9,001 to $24,000 than were the percentages of households in these brackets, but much smaller in the $9,000 or less group and the over $24,000 group (Table 28). Through 34 years of age the percentage of borrowers from finance companies was well above those for all households, slightly more in the 35 to 54, but less for the groups 55 and over.

Percent distributions of the income level and age of borrowers are shown in Table 29. In 1980, 14% had incomes of less than $9,000, 13% had incomes between $9,001 and $12,000, 17% had incomes of between $12,001 and $15,000, and 56% had incomes of over $15,000.

Assets of Finance Companies

The National Consumer Finance Association in its annual survey of its members and other large nonmember companies includes questions concerning assets and liabilities. For 1980, data were obtained from 179 companies—both large and small—which operated 15,084 offices throughout the United States (Table 30). These companies had total assets of $107.5 billion at the end of 1980 including $101.7 billion in accounts and notes receivable of which $26.2 billion was outstanding in personal loans. A total of 146 consumer finance companies, defined as those having over 50% of their receivables in cash loans, responded to the NCFA questionnaire. These companies had assets of $26.1 billion including personal loans of $17.2 billion.

Sources of Funds of Consumer Finance Companies

Finance companies take on all of the common forms of business organization, including the individual proprietorship, the partnership, and the corporate form the latter of which predominates. Sources of funds have been the same generally as those of similar privately owned organizations in other fields of endeavor. Thus, finance companies have competed with all other lines of business in the funds markets. Only in those states where industrial banking companies are chartered do finance company subsidiaries com-

TABLE 28

PERCENT DISTRIBUTION OF BORROWERS FROM FINANCE COMPANIES AND ALL HOUSEHOLDS, BY INCOME AND AGE GROUPS, 1980

	Borrowers from Finance Companies Percent of:		All Households Percent of:	
	Number of loans	Amount of loans	Number of Households	Amount household Income*
By Annual Income				
$6,000 or less	3.9	1.7	11.8 **	1.7 **
$6,001 to $9,000	10.0	5.1	15.8 **	5.6 **
$9,001 to $15,000	30.2	21.3	14.9 **	8.8 **
$15,001 to $24,000	36.1	36.1	25.5 **	24.2 **
Over $24,000	19.8	35.8	32.1 **	59.7 **
Total	100.0	100.0	100.0	100.0
By Age				
Less than 25 years	14.6	8.4	7.8	5.3
25 to 34 years	35.7	30.8	23.3	22.9
35 to 44 years	22.8	28.5	17.6	21.7
45 to 54 years	16.1	20.8	15.4	20.6
55 to 64 years	9.2	10.1	15.4	17.2
65 years and over	1.6	1.4	20.5	12.3
Total	100.0	100.0	100.0	100.0
Number in millions	10.7	-	82.4	-
Amount in billions of dollars	-	$ 27.2	-	$1,734.9

Source: NCFA Surveys and Bureau of the Census.

Note: Parts may not add to totals due to rounding.

* Amount of income by income levels is NCFA estimate.
** Under $5,000 in income in the first group, $5,000 to $9,999 in the second group, $10,000 to $14,999 in the third group, $15,000 to $24,999 in the fourth group, and $25,000 and over in the fifth group.

pete in the market for consumer deposits, which are the major sources of funds for savings and loan associations and credit unions.

As the demand for loans has increased, finance companies have tapped all available sources. Retained earnings and sales of common stock, stated as composites for all finance companies, generally kept the equity portion at about the same level from 1960 through 1975. Comparison of the data for all finance companies from the Federal Reserve Surveys of Finance Companies for 1960, 1965, 1970, 1975, and 1980 show that net worth (capital, surplus and undivided profits) approximated 14.5% to 16% of funds employed as reported in each of these surveys.

Because of the declining numbers of the independent sales finance companies (those companies with over half of their receivables in sales finance paper), the percentages of assets, liabilities and income of the sales finance companies have some limitations for use as averages for comparative purposes. Thus, data on the liabilities, capital and surplus, and income of consumer finance companies only are shown in Tables 31 and 32.

Data for consumer finance companies from the annual NCFA surveys show that the largest source of funds (shown as a

TABLE 29

PERCENT DISTRIBUTION OF THE NUMBER OF LOANS MADE BY BORROWER CHARACTERISTICS, SELECTED YEARS, 1975-1980

By Monthly Income of Borrower	1975	1977	1978	1979	1980
$500 or less	12.2	13.0	4.9	9.3	3.9
$500.01 to $750	28.9	20.3	17.3	17.6	10.0
$750.01 to $1,000	22.0	18.4	18.7	20.8	13.5
$1000.01 to $1,250	36.9*	48.3*	59.1*	18.0	16.7
$1250.01 to $2,000	na	na	na	26.3	36.1
Over $2,000	na	na	na	8.0	19.8
Total	100.0	100.0	100.0	100.0	100.0
By Age of Borrower					
Less than 25 years	18.0	17.2	18.8	29.9	14.6
25 to 34 years	28.8	34.2	37.6	31.1	35.7
35 to 44 years	23.5	21.4	18.3	18.9	22.8
45 to 54 years	23.1	16.6	15.5	12.6	16.1
55 to 64 years	6.0	9.0	8.3	5.8	9.2
65 years and over	0.6	1.6	1.5	1.7	1.6
Total	100.0	100.0	100.0	100.0	100.0

Source: Annual Research Report on Finance Companies for the respective years from data obtained by NCFA surveys.
Note: Parts may not add to totals due to rounding.
na: Not available
* Over $1,000

percent of liabilities and capital combined) has been long-term debt (excluding subordinated debentures), which amounted to 36.1% at the end of 1980. Other sources of funds were: commercial paper of 12.9%, short-term notes payable to banks of 2.4% and longer term 2.7%, thrift certificates of 3.2%, subordinated debentures of 5.5% and capital and surplus of 17.5%.

Income and Expenses of Consumer Finance Companies

Accounts receivable now provide a smaller share of gross income of consumer finance companies than in the early 1970's. This has come about as consumer finance companies, those having over half of their receivables in cash installment loans, have diversified into other activities. Some of these companies have expanded into financing durable goods and into commercial financing, and other companies have purchased, or merged with, retail outlets. Leasing has also brought in additional income. Some finance companies, through subsidiaries, have entered or expanded insurance operations—not only in writing credit life insurance but also in writing other forms of insurance. In 1980, 31.4% of the gross income of consumer finance companies came from sources other than accounts receivable (Table 33). From total gross income, 16.1% was used for wages and salaries, 1.0% for advertising and publicity, 12.6% for losses and loss reserves, and 23.2% for other operating expenses. After paying out 35.2% of gross income for the cost of borrowed funds, the remaining 11.9% of gross income was divided between Federal income taxes (2.3%) and return on funds invested by the owners (9.6%).

Cost of Funds and Rate of Return

Summaries of the cost of borrowing and rate of return on equity for companies which reported such information in the NCFA surveys for 1979 and 1980 are

TABLE 30

ASSETS OF COMPANIES RESPONDING TO NCFA QUESTIONNAIRE
DECEMBER 31, 1980

	Consumer Finance Companies	Sales Finance Companies	All Reporting Companies
	(In millions of dollars)		
Personal loans	17,180	9,005	26,185
Retail automobile paper	865	32,509	33,374
Other consumer receivables	2,011	3,865	5,877
Business receivables	1,344	31,203	32,547
Subtotal	21,400	76,582	97,983
Deduct reserves for unearned income	3,570	10,055	13,625
Subtotal	17,830	66,332	82,358
Deduct reserves for losses	615	1,195	1,810
Subtotal	17,215	65,332	82,548
Cash and bank balances	406	1,237	1,643
Other assets	8,380	11,238	19,617
Total	26,001	77,807	103,808
		(Number)	
Number of companies	146	33	179
Number of offices	10,130	4,954	15,084

Source: National Consumer Finance Association.
Note: Parts may not add to totals due to rounding.

TABLE 31

PERCENTAGE DISTRIBUTION OF LIABILITIES, CAPITAL AND SURPLUS
FOR CONSUMER FINANCE COMPANIES RESPONDING TO NCFA QUESTIONNAIRE
DECEMBER 31, 1976-1980

Balance sheet item	1976	1977	1978	1979	1980
Notes payable to banks					
Short term	6.0	4.6	3.7	3.4	2.4
Maturity greater than 1 year	3.2	3.4	3.7	2.8	2.7
Commercial paper	11.3	10.5	10.4	12.3	12.9
Other short-term debt	3.4	3.4	4.2	5.0	5.8
Deposit liabilities and thrift certificates (short-term)	4.5	4.3	3.5	3.7	3.2
Other current liabilities	5.6	5.7	4.9	7.3	6.4
Long-term debt (excluding subordinated debentures)	34.6	37.1	33.8	33.2	36.1
Subordinated debentures and notes	7.3	7.7	6.4	5.4	5.5
Other liabilities	2.7	3.0	11.1	10.1	7.3
Capital and surplus	21.4	20.3	18.3	16.7	17.5
Total	100.0	100.0	100.0	100.0	100.0

Source: National Consumer Finance Association.
Note: Parts may not add to totals due to rounding.

shown in Tables 34 and 35. In general, the larger companies had higher return on equity and a lower cost of borrowing than the smaller companies. The median cost of borrowing increased from 10.64% in 1979 to 12.40% in 1980. Coversely, the median return on equity decreased from 8.85% in 1979 to 7.50% in 1980.

For a generally representative group of 146 consumer finance companies, the mean rate of return on invested capital, defined as net income (after payment of income taxes) and expressed as a percent of year end net worth (capital, surplus and retained earnings), for consumer finance companies in 1980 was 10.1%, down from 11.9% in 1979 (Table 36). By contrast, the mean rate of return on invested capital of manufacturing corporations in the U.S., was 13.9% in 1980 down from 16.5% in 1979, as reported by the Federal Trade Commission.

Using total assets as a base, the net income after deduction of Federal income taxes, but before deduction of cost of borrowed funds, was 8.27% for consumer finance companies in 1980 up from 7.50% in 1979 as the percentage attributable to cost of borrowed funds increased and that attributable to net income after taxes decreased. The limited data available from the NCFA surveys suggest that for sales finance companies the average was 8.5% in 1980 and 8.3% in 1979.

Regulation of Finance Companies

All of the Federal and state statutes and regulations affecting corporations, partnerships and proprietorships generally

TABLE 32

SOURCES AND USES OF GROSS INCOME IN 1980 OF COMPANIES RESPONDING TO NCFA QUESTIONNAIRE

(In millions of dollars)

	Consumer Finance Companies	Sales Finance Companies	All Reporting Companies
Sources of Gross Income			
Accounts receivable	3,300	9,687	12,987
Other	1,509	1,773	3,282
Total	4,809	11,460	16,269
Uses of Gross Income			
Expenses other than cost of borrowed funds			
Wages and salaries	774	1,156	1,930
Advertising and publicity	46	48	95
Net losses and reserves	606	800	1,405
Other	1,115	1,330	2,445
Subtotal	2,540	3,334	5,874
Cost of borrowed funds	1,694	6,994	8,688
Federal income taxes	113	409	522
Net income	462	723	1,184
Total	4,809	11,460	16,269

Source: National Consumer Finance Association.
Note: Parts may not add to totals due to rounding. See Table 30 for number of offices covered in this report.

TABLE 33

GROSS INCOME OF CONSUMER FINANCE COMPANIES—SOURCES AND USES, SELECTED YEARS, 1975-1980

(Percent of gross income)

	1975	1976	1977	1978	1979	1980
Sources of Gross Income						
Accounts receivable	81.0	78.7	76.9	77.7	74.0	68.6
Other	19.0	21.3	23.1	22.3	26.0	31.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
Uses of Gross Income						
Expenses other than cost of borrowed funds						
Wages and salaries	21.7	20.3	20.1	18.8	17.5	16.1
Advertising and publicity	1.2	1.4	1.6	1.6	1.4	1.0
Net losses and reserves	13.9	11.8	9.6	8.9	10.3	12.6
Other	22.5	23.1	24.7	22.9	21.5	23.2
Subtotal	59.3	56.6	56.0	52.2	50.7	52.8
Cost of borrowed funds	26.5	24.7	24.5	28.1	33.8	35.2
Federal income taxes	3.9	5.6	5.8	6.0	3.4	2.3
Net income	10.3	13.1	13.7	13.7	12.1	9.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Consumer Finance Association.
Note: Parts may not add to totals due to rounding.

TABLE 34

ESTIMATED OVERALL COST OF BORROWING IN 1980 AND 1979 FINANCE COMPANIES BY SIZE OF COMPANY

(In percent) (Number of companies)

	1980			1979			1980	1979
	High	Low	Median	High	Low	Median		
Companies with Consumer Credit Outstanding of:								
$500 million and over	14.24%	9.84%	10.83%	12.49%	8.70%	9.46%	19	20
$150 million and less than $500 million	12.16%	8.90%	10.50%	12.33%	7.80%	10.33%	12	6
$50 million and less than $150 million	15.07%	10.50%	12.21%	15.60%	7.73%	10.40%	14	12
Less than $50 million	20.18%	6.50%	13.45%	18.12%	6.50%	11.40%	77	67
Total	20.18%	6.50%	12.40%	18.12%	6.50%	10.64%	122	105

Source: National Consumer Finance Association.

TABLE 35

ESTIMATED RETURN ON EQUITY IN 1980 AND 1979
FINANCE COMPANIES BY SIZE OF COMPANY

	(In percent)						(Number of companies)	
	1980			1979				
	High	Low	Median	High	Low	Median	1980	1979
Companies with Consumer Credit Outstanding of:								
$500 million and over	18.29%	3.68%	9.94%	20.98%	Loss	10.99%	18	18
$150 million and less than $500 million	11.98%	Loss	5.40%	13.30%	Loss	9.40%	12	7
$50 million and less than $150 million	20.70%	2.60%	8.75%	38.80%	0	13.60%	13	13
Less than $50 million	39.45%	Loss	4.80%	40.21%	Loss	9.17%	63	55
Total	39.45%	Loss	7.50%	40.21%	Loss	8.85%	106	93

Source: National Consumer Finance Association.

TABLE 36

RELATION OF INCOME TO OUTSTANDINGS, ASSETS AND EQUITY,
CONSUMER FINANCE COMPANIES, SELECTED YEARS, 1975-1980

	1975	1976	1977	1978	1979	1980
Finance charges collected as a percent of year-end net outstandings	20.0%	19.3%	18.5%	17.8%	16.7%	18.4%
Cost of borrowed funds and net income as a percent of total assets at year-end total	6.44%	6.59%	6.61%	6.91%	7.50%	8.27
Cost of borrowed funds	4.63%	4.30%	4.24%	4.65%	5.51%	6.50%
Net income after taxes	1.81%	2.29%	2.37%	2.26%	1.99%	1.77%
Net income after taxes as a percent of capital, surplus and undivided profits	8.4%	10.7%	11.7%	12.4%	11.9%	10.1%

Source: National Consumer Finance Association.

apply to such organizations which provide consumer installment credit. In addition, finance companies are subject to special statutory provisions governing their operations by each of the states in which they operate, and the District of Columbia and Puerto Rico.

Some statutes which deal with retail sales finance require that the contract disclose certain information pertaining to the transaction but do not set maximum rates. Other statutes deal with goods only, others deal with goods and services, some deal only with motor vehicle sales finance agreements. Where the statute deals with motor vehicle sales there is generally a classification of cars by model years.

In most states, the supervisory authority is a division of the Banking Department which is frequently empowered to supplement the statutes by promulgating rules and regulations. In other states, similar powers rest with other agencies or departments, for example, in Ohio with the Director of Commerce and in California with the Commissioner of Corporations.

State laws require cash loan licensees to report on their operations annually to the State supervisory authorities. In practically all states, annual examinations by these authorities are required by law and examinations at other times are permitted by law. The costs of such examinations are in most states borne by the licensees —these costs are in addition to the annual license fee for each operating office.

While larger loans are made under various statutes, including second mortgage laws, many of the installment loans of consumer finance companies are still made under provisions of laws derived from and containing the essential elements, though not some of the specific provisions, of the "Uniform Small Loan Law" originally promulgated by the Russell Sage Foundation, or in terms of the "Model Consumer Finance Act" drawn up by the National Consumer Finance Association in 1948. The terms "Uniform Small Loan Law" and "Model Consumer Finance Act" have come to be used interchangeably. Regulatory features consist of provisions with respect to the following: 1) licensing by a State supervisory official, 2) supervision by a State supervisory official having powers to enforce and interpret the law, 3) authorization of adequate charges to permit a complete service, 4) limitation of charges, 5) regulation of contract provisions, 6) disclosure of terms and status of loan transactions, 7) prohibition of evasions and subterfuges, and 8) penalties and enforcement powers.

The restrictive provisions of many of these laws prevented finance companies from lending competitively with other institutions and to become more competitive finance companies have in recent years looked to less restrictions in lending laws under which they operate. Early in 1981, consumer credit acts (small loan, industrial loan, credit code or general interest statutes) in 38 states permit real estate security.

In over half of the states, consumer finance companies and/or industrial banks may also make installment loans under the provisions of other laws, commonly known as industrial loan laws, consumer discount acts or installment loan acts, and in a few states under general interest laws.

Industrial Banking Companies

The generic term "industrial banking companies" is used to include those institutions which are chartered to extend installment credit to consumers and to accept some form of savings deposit or sell investment certificates or certificates of deposit as at least a partial means of financing the operation. This definition excludes nondepository finance companies which are permitted under general securities laws to issue certificates of investment. Industrial banking companies also have participated in those services presently reserved for depository institutions, such as entry in Automated Clearing Houses, and the direct deposit program of the U.S. Treasury.

The latest collated information in some detail on industrial banking companies is for the year 1980. While some changes in

laws have taken place, the number of states and legal frameworks in most cases have not changed significantly. Industrial banking companies operate under various names depending on the particular laws of the states in which they operate. Twenty-three states have statutory provisions for the chartering and/or operation of industrial banking companies. Several industrial banking companies are in operation and the statutes would permit additional charters in twelve states, as follows (with the name the institution generally operates under in parentheses): California (industrial loan company or Morris Plan); Colorado (industrial bank); Hawaii (industrial loan company); Iowa (industrial loan company); Kentucky (industrial loan company); Minnesota (industrial loan company); Nebraska (industrial loan and investment company); Nevada (thrift company); Rhode Island (loan and investment company); Tennessee (industrial loan and thrift company); Utah (industrial loan company); and West Virginia (industrial bank or industrial loan company).

Three Morris Plan operations still exist in Massachusetts, but regulatory provisions have encouraged few if any additional interest in charters. In Indiana, Morris Plan companies are in operation

TABLE 37

NUMBER OF INDUSTRIAL BANKING OFFICES OPERATED YEAR END 1975, YEAR END 1979 AND YEAR END 1980

	Number of Offices		
	1975	1979	1980
California[a]	370	449	484
Colorado	85	115	131
Hawaii	239	247	249
Indiana[b]	16	18	18
Iowa	357	332	304
Kentucky[c]	293	367	347
Minnesota	214	216	201
Nebraska[c]	10	30	34
Rhode Island	8	10[d]	11[e]
Utah	27	36	37
West Virginia[c]	47	50	44
TOTAL	1,666	1,870	1,860

na - Not available.
a - Thrift companies only
b - Loan investment companies issuing certificates of investment, year ending June 30.
c - As of June 30.
d - Year-end 1978.
e - Year-end 1979.

but by statute no more charters will be issued; none are in operation in Arizona, Connecticut, New Hampshire, North Carolina, Michigan or Virginia (and no charters will be issued in the latter two states). One industrial banking company is in operation in Kansas and one in Missouri. In the State of Washington, the sale of investment certificates is discouraged and none are sold so that state's Industrial Loan Company Law provides essentially a vehicle for the issuance of loan licenses.

Published statistical data on industrial banking companies are limited. Table 37, which covers eleven states, gives an indication of the changes in the number of offices operated between 1975, 1979 and 1980. For the same states, Table 38 shows a breakdown of assets which totaled $5.1 billion at year end 1980, up from $4.6 billion in 1979. Table 39 shows the liabilities and net worth of industrial banking companies which at year end 1980 held deposits and thrift investment certificates of $2.7 billion, up from $2.3 billion in 1979.

State corporations have been formed known as Industrial Bank Savings Guaranty Corporations in the states of California, Colorado, Utah, Hawaii, and Iowa for the specific purpose of guaranteeing the deposits of these industrial banking companies. The initial guarantee was $10,000

TABLE 38

ASSETS OF INDUSTRIAL BANKING COMPANIES, BY STATES, YEAR END 1980

(In thousands of dollars)

	Installment Loans	Retail Installment Contracts	Real Estate Mortgages	Other Loans and Contracts	Cash on Hand and in Banks	Other Assets[a]	TOTAL
California[b]	655,577	485,034	-------	7,362	23,880	(-)85,147	1,086,706
Colorado	396,719	50,745	-------	-----	46,154	55,805	549,423
Hawaii	198,958	45,298	502,964	54,604	38,201	162,032	1,002,057
Indiana[c]	254,857[d]	-------	-------	-----	10,992	18,211	284,060
Iowa	395,595	-------	-------	37,661	4,569	28,783	466,708
Kentucky[e]	184,531	5,609	-------	-----	2,284	61,634	254,058
Minnesota	225,295	-------	-------	42,064	4,305	24,543	296,207
Nebraska[e]	243,373[d]	-------	-------	-----	17,871	59,852	321,096
Rhode Island[f]	258,863[d]	-------	-------	-----	16,286	56,934	332,083
Utah	322,382[d]	-------	-------	-----	16,299	53,814	392,495
West Virginia[e]	54,286		45,959	-----	1,370	(-)20,964	80,651
TOTAL	3,190,436	586,686	548,923	141,691	182,311	415,497	5,065,544

a - Includes deductions for unearned charges, loss reserves, dealer reserves.
b - Thrift companies only.
c - Loan and investment companies issuing certificates of investment, year ending June 30.
d - Includes all loans and investments.
e - As of June 30.
f - Year-end 1979.

and the funds of the Guaranty Corporation came entirely from the participating companies in each State.

Deposit guarantees by these corporations initially brought in additional deposits to the industrial bank companies. However, as the amounts of deposit insurance for savings and loans, and commercial banks were increased from $10,000 to $40,000 and in 1980 to $100,000, they became less attractive.

Uniform Consumer Credit Code

As with other consumer credit institutions, finance companies and industrial banking companies are subject to the Uniform Consumer Credit Code (UCCC) in those states where it is in effect—Colorado, Idaho, Indiana, Kansas, Maine, Oklahoma, Utah, and Wyoming. Other states, such as Louisiana, Alabama, and West Virginia, have passed general statutes containing various elements of the UCCC, while the State of Wisconsin in 1972 passed a statute which contained some elements of the UCCC.

With the entry of each institution into the consumer credit business—finance companies, industrial banking companies, commercial banks, credit unions, retailers, savings and loan associations, and mutual savings banks—the laws applicable to each institution were amended. In the absence of previous legislation new laws were passed to regulate the consumer credit aspects of these businesses. As a result, most states have a number of laws which vary among themselves as to rates, supervision, and other legal requirements.

The UCCC provides for one overall regulatory law to replace all existing state consumer credit laws, including loan laws, sales finance and revolving credit

TABLE 39

LIABILITIES AND NET WORTH OF INDUSTRIAL BANKS, BY STATES, YEAR END 1980

(In thousands of dollars)

	Deposits	Thrift Investment Certificates	Short-term Borrowing	Debentures and Capital Notes	Notes Payable	Other Liabilities	Net Worth	TOTAL
California[a]	--------	857,038	9,787	--------	65,054	26,375	128,452	1,086,706
Colorado	69,534	228,486	24,382	1,509	--------	149,646	75,866	549,423
Hawaii	--------	449,676	251,104	10,716	--------	138,390	152,171	1,002,057
Indiana[b]	--------	228,787	--------	272	--------	34,796	20,205	284,060
Iowa	--------	166,313	39,133	3,604	114,115	27,769	115,774	446,708
Kentucky[c]	--------	7,869	171,755	--------	--------	37,518	36,916	254,058
Minnesota	--------	58,310	15,397	--------	98,743	60,298	63,459	296,207
Nebraska[c]	--------	269,380	--------	--------	--------	18,874	32,842	321,096
Rhode Island[d]	51,670	110,329	--------	--------	101,863	36,926	31,295	332,083
Utah	--------	240,222	--------	--------	62,469	15,075	74,729	392,495
West Virginia[c]	--------	5,543	--------	--------	--------	42,438	32,670	80,651
TOTAL	121,204	2,621,953	511,558	16,101	442,244	588,105	764,379	5,065,544

a - Thrift companies only.
b - Loan investment companies issuing certificates of investment, year ending June 30.
c - As of June 30.
d - Year-end 1979.

laws, usury laws, and laws regulating insurance premium financing, home repair financing and second mortgages on homes. Consumer credit as defined by the UCCC is loan and sale credit to individuals for personal, family, household, or agricultural purposes including the purchase of a home or farm when there is a charge for the credit or the credit is repayable in installments. The UCCC would regulate all consumer credit as defined for amounts up to $25,000, with provisions for increasing the ceiling based on increases in the Consumer Price Index.

The UCCC would fix the same maximum rates for all types of consumer credit grantors. In summary, as specified in the UCCC (1974), the maximum rates for installment credit (loans and sales) are 36% per year on the first $300, 21% per year on the next $700, and 15% per year on the remainder, with the provision that each step would be increased based on changes in the Consumer Price Index. When these graduated rates yield less than 18% per year, the maximum is 18% per year.

The UCCC has significant consumer protection provisions as to disclosure of contract terms, advertising, balloon payments, security, garnishment and other creditors' collection remedies, unconscionable or fraudulent conduct, "cooling-off" period for door-to-door sales, referral sales, rescission of contracts secured by the debtor's home, and official surveillance and enforcement by an Administrator. There are heavy civil and criminal penalties specified for violations of the UCCC.

Revisions contained in the UCCC (1974) reflected changes in the response to many of the recommendations made by the National Commission on Consumer Finance established by the Consumer Credit Protection Act. The revised UCCC substantially implements the National Commission's recommendations as to buyers' defenses in installment and credit card sales and in sale-related loans, deficiency judgements, service of process, limitations on garnishment, debt collection practices, door-to-door sales, and cosigner agreements.

Consumer Credit Protection Laws

Finance companies and industrial banks like all other creditors are subject to the Federal Consumer Credit Protection Act and other laws which mandate special procedures concerning credit or information about consumer borrowers.

Federal protection of consumer borrowing began in 1968 with the passage of the Consumer Credit Protection Act. Title I of this legislation, the Truth in Lending Act, mandated that creditors provide disclosure of credit terms to promote the informed use of credit by consumers. It also required the Board of Governors of the Federal Reserve System to prescribe regulations to carry out the purposes of the Act. Specific Federal agencies administer the Board's regulations. Pursuant to congressional instructions, the Board issued Regulation Z, which provided, among other things, for disclosure of the actual "finance charge" for credit and of the effective "annual percentage rate" to be calculated by using standardized methods.

Since this initial action, the Congress has amended the Truth in Lending Act repeatedly and also has enacted new consumer credit laws, as follows: Fair Credit Reporting Act (1970), Credit Card Amendments to Truth in Lending (1970), Technical Amendments to Truth in Lending (1974), Fair Credit Billing Act (1974), Equal Credit Opportunity Act (1974), Federal Trade Commission Improvement Act (1975), Home Mortgage Disclosure Act (1975), Equal Credit Opportunity Act Amendments (1976), Consumer Leasing Act (1976), Fair Debt Collection Practices Act (1977), Community Reinvestment Act (1977), and Electronic Funds Transfer Act (1978). As Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980, "Truth in Lending Simplification" was enacted.

The administrative structure for many of these laws parallels that of the Truth in Lending Act. The Congress states its general intent and instructs the Board of Governors of the Federal Reserve System to issue regulations that apply to institutions

granting consumer credit. Thereafter the Federal agencies with primary supervisory responsibility for each class of creditors administer the Board's regulations for those creditors.

Report of the National Commission on Consumer Finance

The Consumer Credit Protection Act of 1968 also created a National Commission on Consumer Finance, whose duty was to study and appraise the functioning and structure of the consumer finance industry, as well as consumer credit generally. The Commission made its report to the President and Congress on December 31, 1972.

The Commission concluded that a truly competitive consumer credit market, with adequate disclosure of relevant facts to an informed consuming public, together with legislation and regulation to eliminate excesses, will foster economic growth and serve to optimize benefits to the consumer. As to excesses in the marketplace, the Report recommended significant additions to the protection of consumers in the fields of creditors' remedies and collection practices, urging restrictions on remedies such as garnishment, repossession and wage assignment, and recommending abolition of the holder in due course doctrine, confessions of judgement, and harassing tactics in debt collections.

The Commission's research studies contain the empirical data, information and analysis relied upon by the Commission. These six technical studies are as important as the Report itself and provide some data not available elsewhere.

One of the research volumes by the National Commission on Consumer Finance released early in 1974 (Technical Studies, Volume III), contains many tables of information on installment credit by states at mid-1971—the only attempt at a comprehensive state-by-state compilation.

Electronic Fund Transfer Systems

The development of Electronic Fund Transfer Systems (EFTS) has hastened an evolution in the payments system in which the commercial banking system is no longer the exclusive vendor of the means of money transfer. A growing number of institutions and industries outside of banking are offering money or near-money deposit arrangements and providing money transfer services.

The major contenders for money transfer powers have been the nonbank depository institutions—savings and loan associations, mutual savings banks, credit unions and industrial banks. Non-depository consumer finance companies, credit card companies, retailers, insurance companies, and new institutions (such as money market funds) are displaying increased interest in the direct transfer of funds. Technology was the instigator and legislation has been passed which is permitting changes whereby commercial banks may be by-passed in funds transfers.

Over two decades, the operations of financial institutions became increasingly computerized, but in ways that did not directly affect how ordinary Americans transact their financial affairs. In the last few years, however, the consumer began to be offered computerized services supplementing checks and currency. Many depository institutions now offer automated deposit and withdrawal services; social security recipients and some employees have their checks deposited electronically in their accounts; and some consumers are able to pay bills without use of cash or checks. These services are being facilitated by the technology that has become known as electronic fund transfers (EFT).

To learn more about EFT and to obtain a variety of views on the appropriate public policy toward EFT, the Congress established the National Commission on Electronic Fund Transfers to study and report, with recommendations, on all aspects of EFT with which the Congress should be concerned.

The Final Report of the National Commission on Electronic Fund Transfers which was released on October 28, 1977, was divided into eight parts: The Com-

mission and Its Work; The Consumer and EFT; Developmental Issues in EFT; Technology and EFT; Roles of the Federal Government in EFT; and International Developments in EFT.

Part 7 offers the separate statements of various Commissioners on various issues. Part 8 provides a series of nine appendixes containing the text of the Act which established the Commission, the votes of Commissioners on certain recommendations, a description of the payments system in the United States, and several descriptive appendixes regarding the Commission's work.

The Report reflects the Commission's recognition that EFT is in an evolutionary process and that only the first steps have been taken in its potential development. The Commission adopted the principle that the growth of EFT should take place in a competitive environment, that EFT should be viewed as an alternative means to provide payments services and that all evidence suggests that today's paper-based system will remain in operation indefinitely. The Commission also accepted the thesis that the future of EFT is inextricably tied to consumer acceptance.

Essentially the Commission viewed EFT only within the existing institutional framework. It did not attempt to offer alternative scenarios for possible development in the future. By this approach, finance companies which offer only credit and have no deposit capability, were considered in relation to credit markets and information transfer services but not fund transfer services. On the other hand, industrial banking companies, which offer passbook or other deposit-like consumer services, would be included among the thrift institutions and subject to the conclusions and recommendations applicable to them.

DIDMCA

The Depository Institutions Deregulation and Monetary Control Act of 1980, which became law on March 31, 1980, will have as far-reaching affects on financial institutions as did the Federal Reserve Act of 1913 and the legislation of the 1930's. Through its nine titles consisting of 101 sections, the Act will impact the operations of all financial institutions, depository and nondepository.

The Act will change the nature of our monetary system. All accounts of depository institutions subject to transfer of funds to third parties are incorporated into our country's medium of exchange. To effect this modernization of the monetary concept the Act introduced the "transaction account" which is defined as any deposit or account on which the depositor or account holder is permitted to make withdrawals payable to a third party. The Act also introduced the concept of the "non-personal time deposit" which is a transferable time account in which any beneficial interest is held by a depositor who is not a natural person. Beginning September 4, 1980, all depository institutions (banks, savings and loan associations, and credit unions) were required to maintain reserves against such accounts. Members of the Federal Reserve System are to be phased down to this new structure of reserve requirements over a three and one-half year period. Non-member banks, savings and loan associations, credit unions, and industrial banks are to be phased into the reserve requirements over an eight-year period, depository institutions subject to these reserve requirements have access to the Federal Reserve services.

The Act is altering the form and substance of regulations applied to depository institutions. To monitor and control monetary and credit aggregates, the Federal Reserve Board will require reports of assets and liabilities of all depository institutions including those that are not federally insured. The latter will be accomplished through such state officer or agency as the Board may designate. To phase out the limitations on maximum rates of interest on deposits (Regulation Q) over a six-year period, the Act creates a Deregulation Committee consisting of the Secretary of the Treasury, the chairmen of the federal regulatory agencies of depository institutions, and the Comp-

troller of the Currency. The committee assignment is to eventually provide depositors with a market rate of return on their savings.

The Act provides for redefining money and near-money, that is, demand deposits, time deposits and savings deposits. The Deregulation Committee has the authority to prescribe rules governing the payment of interest by all federally insured depository institutions and to establish classes of deposits or accounts. This may be done by the gradual increase in such limitations, the complete elimination of limitations on particular accounts, the creation of new categories of accounts, the combination of any of these methods, or by any other method. On March 31, 1986, all powers transferred to the Committee under the Act will terminate and the Committee will cease to exist.

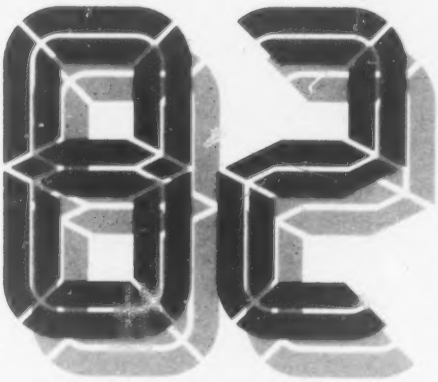
The Act expands the powers of the savings and loan associations to provide services as well as to obtain funds. Subject to regulations of the Home Loan Bank Board, savings and loan associations may engage in or participate in credit card operations, offer loans specifically related to negotiable order of withdrawal (NOW) accounts, offer mortgages under certain circumstances over 90% of appraised value, offer second mortgages, and offer with limitations consumer loans and commercial real estate loans. As a source of funds, savings and loan associations may issue mutual capital certificates which may be used as a part of the general reserve and net worth but must be subordinate to all savings accounts, certificates and debt obligations. Any state (stock) savings and loan association that existed in stock form by March 31, 1976 may convert to a Federal (stock) charter under specified conditions.

The Act preempts state usury ceilings permanently in certain instances and subject to override by state action in others. Usury provisions of state constitutions or laws affecting first liens on residential real property and manufactured homes taken after March 31, 1980, are preempted subject to override by state action after April 1, 1980 and before April 1, 1983. A somewhat similar provision for business or agricultural loans of $1,000 or more applies except that a rate of not more than 5% above the Federal Reserve Bank discount rate is permitted. The preemption is subject to state override and expires on April 1, 1983. Insured state banks and thrift institutions, and small business investment companies may charge a rate of 1% above the basic Federal Reserve discount rate with no terminal date but subject to state override. State restrictions on the rate of interest that may be paid on deposits are eliminated.

The Act amends the Truth in Lending Act to simplify and reduce the number and detail of disclosures and make them more than understandable. This part of the Act will go into effect on April 1, 1982, but creditors may comply with its provisions once the Federal Reserve Board adopts revised Regulation Z.

In summary, various sections of the nine titles of the Act will make changes in our financial system which will impact many aspects of the operations of industrial banking companies. The Act will introduce new competition to the lending operations of finance companies, their sources of funds, and the legal framework under which they operate. The Act will create a new status for savings and loan associations including opening the Federal Charter to corporate stock savings and loan associations. The Act will introduce new forms of competition and change the structure of the financial markets.

1982 AND BEYOND



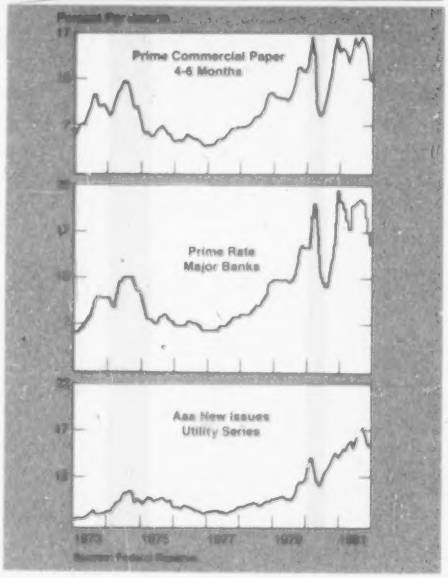
Projections of the future course of the economy are hazardous at best. In the past, few have been resoundingly successful in regularly calling the future correctly. Projections necessarily depend upon historical experience and the forecaster's ability to distinguish indicators which suggest future developments. However, historical experience provides few guidelines in this economic environment characterized by historically high rates of interest, unstable financial markets, radical changes in energy sources and costs, structural changes in the automobile and finance industries, and the ultimate symptom—inflation.

In retrospect, inflation of the past few years has been developing since the mid-1960's. The consumer price index (CPI-U), though an inadequate indicator of short-term price movements, is useful as a long-term trend indicator. Average figures of the CPI-U for each year show a decline in only one year since 1950—by 0.4% in 1955. The first half of the 1960's showed increases of 1% to 2%, the second half of the 1960's increases of 3% to 6%. The first half of the 1970's showed increases of 3% to 11%. The last half of the 1970's produced progressively higher rates of increase: 1976—5.8%, 1977—6.5%, 1978—7.6%, and 1979—11.5%. And the year 1980 topped them all with 13.5% before a slight drop in the rate of increase—to "only" 10.4% in 1981.

Since the mid-1960's the anticipation of continuously increasing prices has been built into the economic decisions of government, business, and consumers alike. The basic problem is to wring out the inflationary psychology that is built into economic decision making. There must be a return to the basic economic principle that human wants are insatiable and that whether it be government, business or consumers there must be established priorities since all wants cannot be satisfied.

CHART 26

INTEREST RATES, 1973-1981
(MONTHLY AVERAGES OF DAILY FIGURES)



Compounding the economic problem have been the wide fluctuations of financial market rates since 1973. As Chart 26 illustrates, the short-term rates (commercial paper and prime rate) have fluctuated widely except for a short period in 1976-1977. Of greater consequence, however, is the uncertainty in the long-term markets that developed in 1979 and still continues as illustrated in the chart by Aaa New Issues. Moreover, the irrational peaking of interest rates during the recessions in 1974 and 1980 is difficult to explain. The false response in the first few months of 1980—the ravine in interest rates—can not be explained by economic factors. It is possible that former President Carter's five points in his speech of March 14, 1980 raised hopes of some fundamental policy changes. The five points he made were: (1) Increased discipline in the federal budget; (2) Restraints on credit; (3) Wage and price actions; (4) Greater energy conservation; (5) Economic structural changes to encourage productivity, savings, research and development. There were many elements, within these five points, which if carried out, could have provided the shock treatment necessary to ease the upward move in interest rates at mid-year.

However, 1980 was an election year and the Administration and Congress took little decisive action during the year except to pass the Depository Institutions Deregulation and Monetary Control Act of 1980. After ten years of cogitation, this was done only when it became evident that legislation was essential if the laws underlying our monetary and credit system were to catch up with financial and economic reality of years earlier. This was a major step forward and monetary policy, if given a well-reasoned fiscal policy basis upon which to build, could be effective in stabilizing interest rates and slowly bring them down over the next few years.

The experimentation with new and different proposals by the Republican Administration has led to somewhat lower inflation in 1981, but not yet to substantially lower interest rates. One can only hope that the "supply-side" tax cuts and spending-plan reductions enacted in 1981 will, in time, return the economy to a less inflationary path with lower interest rates and greater long-term growth.

LIST OF REFERENCES

Publications listed below are suggested primarily as sources of information on the consumer finance industry. A well stocked library should have them available. A detailed listing of the publications and other services of the National Consumer Finance Association may be found in the *NCFA 1983 Services Catalog*.

Bankruptcy: Problem, Process, Reform / By David T. Stanley and Marjorie Girth. Published by The Brookings Institution, Washington, DC (1971).

Consumer Credit—Factors Influencing its Availability and Cost / U.S. Department of Commerce / Superintendent of Documents, U.S. Government Printing Office, Washington, DC (May 1976).

Consumer Credit in the United States / Report of the National Commission on Consumer Finance / Superintendent of Documents, U.S. Government Printing Office, Washington, DC Stock # 5200-00005 (1973). (Also six technical volumes containing research studies.)

1977 Consumer Credit Survey / By Thomas A. Durkin and Gregory E. Elliehausen / Published by the Board of Governors of the Federal Reserve System, Washington, DC (December 1978).

Consumer Finance: A Case History in American Business / By Irving S. Michelman. Second edition published by Augustus M. Kelley, New York (1970).

The Consumer Finance Industry—Its Costs and Regulation / By John M. Chapman, Robert P. Shay and Jack Zwick, Columbia University, and Paul F. Smith, Wharton School of Finance and Commerce, University of Pennsylvania, and Robert W. Johnson, Graduate School of Industrial Administration, Purdue University, Published by Columbia University Press, New York and London (1967).

Consumer Finance Law Bulletin / Published bi-weekly by NCFA Law Forum.

Consumer Financial Data Sources / CRC Monograph #21 / By Richard L. Peterson. Published by Credit Research Center, Purdue University, West Lafayette, Indiana (1980).

Cost of Personal Borrowing in the United States / Published annually by the Financial Publishing Company, Boston, Massachusetts.

Credit / Published bi-monthly by the National Consumer Finance Association.

Credit Research Center Monographs, Working Papers and Reprints: A Series of research studies on topics significant to consumer credit. / Published by Credit Research Center, Purdue University, West Lafayette, Indiana.

Depository Institutions Deregulation and Monetary Control Act of 1980 and its Relations to Finance Companies, Introduction to / Vol. 34, Supp. 26./ Consumer Finance Law Bulletin, July 25, 1980. Published by NCFA Law Forum.

Economic Report on Consumer Lending in Texas / CRC Monograph #4 / By Thomas A. Durkin and E. Ray McAlister. Published by Credit Research Center, Purdue University, West Lafayette, Indiana (1977).

The EFT Commission and Finance Companies: Report of the NCFA Task Force / National Consumer Finance Association (1978).

EFT and the Public Interest: A Report of the National Commission on Electronic Fund Transfers / Superintendent of Documents, U.S. Government Printing Office, Washington, DC (February 1977).

EFT in the United States: Policy Recommendations and the Public Interest, The Final Report of the National Commission on Electronic Fund Transfers / Superintendent of Documents, U.S. Government Printing Office. Washington, DC (October 1977).

EFTS: Electronic Funds Transfer Systems—Elements and Impact / By Mark G. Bender. Published by Kennikat Press Corporations, New York (1975).

Finance Facts / Published monthly by National Consumer Finance Association.

Industrial Banking Companies, The Monetary Control Act of 1980 and Regulation D / Vol. 34, No. 35 / Consumer Finance Law Bulletin Supplement, September 5, 1980. Published by NCFA Law Forum.

Licensed Lending in New York / By John M. Chapman and Robert P. Shay. Published by Columbia University Press, New York and London (1970).

Money and Your Marriage / By Carl F. Hawver, Roy A. Burkhart and James A. Peterson. Published by National Consumer Finance Association.

NCFA Research Report on Finance Companies / Published annually by Research Services, National Consumer Finance Association.

NCFA Research Report on Industrial Banks as Thrift Institutions, 1981 / Published by Research Services, National Consumer Finance Association (1982).

NCFA Research Report on Second Mortgage Lending by Finance Companies in 1980 / Published by Research Services, National Consumer Finance Association (1981).

NCFA Research Supplements: The Long Term Growth of Consumer Installment Credit (373.7); The Consumer Finance Industry by State and Statute, 1970 and 1971 (373.8); 1972 and 1973 (373.9); 1974 and 1975 (373.10) and 1978 (unnumbered); Industrial Banking Companies (373.11) / Published by Research Services, National Consumer Finance Association.

NCFA Summary of State Consumer Credit Laws and Rates / Compiled by NCFA Law Forum / Revised annually.

Neifeld's Manual on Consumer Credit / By M. R. Neifeld/ Published by Mack Publishing Company (1961).

Report on Nonbusiness Bankruptcies by States / Published annually for years 1961-1979 by Research Services, National Consumer Finance Association.

Research on Consumer Credit / Published by Research Services, National Consumer Finance Association.

State and Regional Estimates of the Price and Volume of the Major Types of Consumer Installment Credit in Mid-1971 / By Milton W. Schober and Robert P. Shay. Published, as Technical Volume III, the National Commission on Consumer Finance, by U.S. Government Printing Office (1973).